

A BLUEPRINT FOR PROSPERITY: EXPANDING HOUSING AFFORDABILITY

HEARING BEFORE THE COMMITTEE ON THE BUDGET UNITED STATES SENATE ONE HUNDRED EIGHTEENTH CONGRESS SECOND SESSION

January 31, 2024

Printed for the use of the Committee on the Budget



A BLUEPRINT FOR PROSPERITY: EXPANDING HOUSING AFFORDABILITY

A BLUEPRINT FOR PROSPERITY: EXPANDING HOUSING AFFORDABILITY

HEARING BEFORE THE COMMITTEE ON THE BUDGET UNITED STATES SENATE ONE HUNDRED EIGHTEENTH CONGRESS SECOND SESSION

January 31, 2024

Printed for the use of the Committee on the Budget



www.govinfo.gov

U.S. GOVERNMENT PUBLISHING OFFICE

WASHINGTON : 2024

COMMITTEE ON THE BUDGET

SHELDON WHITEHOUSE, Rhode Island, *Chairman*

PATTY MURRAY, Washington

RON WYDEN, Oregon

DEBBIE STABENOW, Michigan

BERNARD SANDERS, Vermont

MARK R. WARNER, Virginia

JEFF MERKLEY, Oregon

TIM KAINE, Virginia

CHRIS VAN HOLLEN, Maryland

BEN RAY LUJAN, New Mexico

ALEX PADILLA, California

CHARLES E. GRASSLEY, Iowa

MIKE CRAPO, Idaho

LINDSEY O. GRAHAM, South Carolina

RON JOHNSON, Wisconsin

MITT ROMNEY, Utah

ROGER MARSHALL, Kansas

MIKE BRAUN, Indiana

JOHN KENNEDY, Louisiana

RICK SCOTT, Florida

MIKE LEE, Utah

DAN DUDIS, *Majority Staff Director*

KOLAN DAVIS, *Republican Staff Director and Chief Counsel*

MALLORY B. NERSESIAN, *Chief Clerk*

ALEXANDER C. SCIOSCIA, *Hearing Clerk*

C O N T E N T S

WEDNESDAY, JANUARY 31, 2024

OPENING STATEMENTS BY COMMITTEE MEMBERS

	Page
Senator Sheldon Whitehouse, Chairman	1
Prepared Statement	30
Senator Charles E. Grassley, Ranking Member	3
Prepared Statement	32
Senator Sherrod Brown	5

STATEMENTS BY COMMITTEE MEMBERS

Senator Ron Johnson	17
Senator Tim Kaine	18
Senator Alex Padilla	20
Senator Mike Braun	22
Senator Chris Van Hollen	24
Senator Jeff Merkley	26

WITNESSES

Ms. Peggy Bailey, Vice President of Housing and Income Security, Center on Budget and Policy Priorities	6
Prepared Statement	34
Mrs. Carol Ventura, Executive Director, RIHousing	8
Prepared Statement	46
Mr. Kevin Boyce, Commissioner, Franklin County Board of Commissioners	10
Prepared Statement	52
Mr. Bill Slover, Principal, AVCO Interests, LLC	11
Prepared Statement	66
Dr. Todd Walker, Walter Professor of Financial Economics, Indiana Univer- sity	13
Prepared Statement	143

APPENDIX

Responses to post-hearing questions for the Record	
Ms. Bailey	145
Mrs. Ventura	149
Mr. Boyce	157
Mr. Slover	162
Dr. Walker	171
Document submitted for the Record by Chairman Sheldon Whitehouse	176
Document submitted for the Record by Senator Tim Kaine	188
Statement submitted for the Record by American Enterprise Institute	192
Statement submitted for the Record by the J. Ronald Terwilliger Center for Housing Policy	247

A BLUEPRINT FOR PROSPERITY: EXPANDING HOUSING AFFORDABILITY

WEDNESDAY, JANUARY 31, 2024

COMMITTEE ON THE BUDGET,
U.S. SENATE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:00 a.m., in the Dirksen Senate Office Building, Room SD-608, Hon. Sheldon Whitehouse, Chairman of the Committee, presiding.

Present: Senators Whitehouse, Merkley, Kaine, Van Hollen, Padilla, Johnson, Brown, Marshall, Braun and R. Scott.

Also present: Democratic Staff: Dan Dudis, Majority Staff Director; Josh Smith, Budget Policy Director; Tyler Evilsizer, Senior Budget Analyst; Connor Jennings, Budget Analyst.

Republican Staff: Chris Conlin, Deputy Staff Director; Krisann Pearce, General Counsel; Ken Acuna, Professional Staff Member; Ryan Flynn, Staff Assistant.

Witnesses:

Ms. Peggy Bailey, Vice President for Housing and Income Security, Center on Budget and Policy Priorities

Mrs. Carol Ventura, Executive Director, RIHousing

Mr. Kevin Boyce, Commissioner, Franklin County Board of Commissioners

Mr. Bill Slover, Principal, AVCO Interests, LLC

Dr. Todd Walker, Walter Professor of Financial Economics, Indiana University

OPENING STATEMENT OF CHAIRMAN WHITEHOUSE¹

Chairman WHITEHOUSE. Good morning, the hearing of the Budget Committee will come to order. We continue to extend our very best wishes and affectionate and regards to Senator Grassley, who is actually here. He and I encountered each other at the vote last night and he was his usual, cheerful self and we hope will be back, but in the meantime, Senator Johnson has been kind and courteous enough to stand in for him as the Ranking Member, so I'm grateful to Senator Johnson for that. I welcome all the witnesses. We are here this morning to discuss how investments in expanding housing affordability can drive American economic growth.

For decades, our country has faced a housing affordability problem. It's a market failure many years in the making and the 2008 financial crisis and the COVID-19 pandemic didn't help. After the housing market collapsed in 2008, the new housing supply for sin-

¹Prepared statement of Chairman Whitehouse appears in the appendix on page 30.

gle and multiunit buildings declined. Even as demand recovered, supply continued to lag.

Now, housing is taking up a larger share of American's household budgets and low- and middle-income families are being priced out of the market. Owning a home, once seen as a foundational piece of the American dream, is further out of reach for more Americans than ever before. The National Association of Realtors finds that first-time homebuyers made up just 26 percent of homebuyers in 2022 compared to 38 percent in 1981. And today, the typical age of a first-time homebuyer has risen to a record high of 36 years old, up from 29 years old in 1981.

With fewer people able to purchase homes, more people must rent and that's created a shortage of rental units driving up the cost of rent. New research finds that half of all renters in the United States spend more than 30 percent of their income on rent and utilities, more than at any other time in history. Across the country the U.S. faces a shortage of four to seven million housing units available for sale or rent.

In Rhode Island, there are currently no communities where families earning the state's median income can afford to buy a typical home and there's only one town where Rhode Islanders earning the state's median income can affordably rent. According to Zillow, the Providence area experienced the largest year-over-year rent increase in the country last year, a 7.5 percent increase.

The squeeze is bad for our entire economy. It's bad for income inequality, it's bad for families, and it's particularly bad for young people. I've heard from young people around Rhode Island about the importance of affordable housing and I intend to do something about it. Unaffordable housing decreases job retention and lowers productivity. It can force businesses to relocate, taking job opportunities with them. A lack of available housing reduces local tax revenue, reducing local resources for education, public safety, and infrastructure.

Nationwide, the shortage of affordable housing opportunities cost the American economy an estimated two trillion dollars each year. High housing costs reduce disposable income and economic mobility, stifling economic opportunity. Investing in our nation's housing infrastructure would provide relief to millions of Americans and drive economic growth, particularly in local economics.

Helping families have a safe, stable place to call home should not be controversial. This isn't Red state versus Blue state. It's not urban versus rural. Americans in all 50 states struggle with higher housing costs. Today there's not a state, metropolitan area, or county where a worker earning the local minimum wage at 40 hours a week can afford a modest, two-bedroom rental at the U.S. Department of Housing and Urban Development's (HUD) fair market rate standard.

As a nation, we underinvested in housing. It's created a harmful situation for millions of families, and it is now a significant drag on our economy, so we can and must take action to ensure housing is safe and affordable for all. The Biden-Harris Administration has taken sweeping new steps to increase the housing supply, protect renters, and ease cost burdens.

The American Rescue Plan kept people housed during the worst of the pandemic recession and laid the foundation for jumpstarting new construction. Over \$14 billion of the Rescue Plan state and local fiscal recovery funds have already gone towards expanding housing supply, investing in homeless services, and providing 3.7 million additional households with rent, mortgage, and utility relief.

Under President Biden's Housing Supply Action Plan, more new apartments were under construction in 2023 than in any year on record. Our appropriations support housing programs like the Home Investment Partnerships, community development block grants, and housing choice vouchers, but it obviously isn't enough.

Over these next few months, I'll be introducing bills to assist home ownership and access to affordable rentals for lower income Americans. Next month, with Congressman Panetta and Blumenauer, I'll propose a \$15,000 first-time homebuyers tax credit for lower income Americans, refundable, advanceable, and available for homeowners at the time of purchase.

My Democratic Budget colleagues have also come to the table with detailed proposals to expand housing affordability. This includes Senator Wyden's Decent, Affordable, Safe Housing for All (DASH) Act, the Low-Income First-Time Homebuyers (LIFT) Act of 2021, lead by my colleagues Senators Warner, Van Hollen, and Kaine. The Fair Housing Improvement Act lead by Senators Kaine and Sanders, Senator Merkley's End Hedge Fund Control of American Homes Act, the Delivering Essential Protection, Opportunity, and Security for Tenants (DEPOSIT) Act lead by Senators Luján and Padilla, and Senator Padilla's Housing for All Act. We'll hear about many of those programs and proposals today.

Ensuring access to safe and affordable housing is a moral and economic imperative. I hope it is something upon which we can find common ground and advance this year. Senator Johnson.

OPENING STATEMENT OF SENATOR GRASSLEY^{2 3}

Senator JOHNSON. Thank you, Mr. Chairman. I obviously want to express my sentiment for a full and speedy recovery to Senator Grassley, but also for you. I see you're in quite a bit of back pain. I hope you recover quickly. And I'm happy to read Senator Grassley's opening statement.

"Mr. Chairman, I appreciate your calling today's hearing on housing affordability. In Senator Grassley's 99 county meetings, he regularly hears from Iowans about the lack of housing, especially to pricing afford." I hear the same thing in Wisconsin and I'm sure every senator hears that back in their states as well.

"While affordable housing is in short supply in many communities, this isn't due to a shortage of federal housing programs. Currently, there are more than 100 housing programs at the federal level, costing more than \$100 billion per year. This includes over \$70 billion in the Department of Housing and Urban Development budget alone. Billions more are provided in programs outside of HUD, including through United States Department of Agri-

²Prepared statement of Senator Grassley appears in the appendix on page 32.

³Senator Grassley's opening statement was read by Senator Johnson.

culture (USDA), the Department of Defense, and the Department of Veterans Affairs.

“On top of these programs, the tax code includes incentives for homeownership and the construction of low-income housing. There are also government loan guarantees and government-sponsored enterprises to support the housing credit market. Despite this litany of programs, affordable housing concerns remain a perennial issue. In recent years, inflation, driving by reckless federal spending under the Biden Administration has made problems worse.

“In 2021, the price of homes increased by the largest amount in the history of the Case-Shiller National Home Price Index at 19.3 percent and home prices are up over 32 percent since Biden took office. Well, good for homeowners, except for increased property taxes, renters felt the pain with rental prices increasing to the third largest amount over the last 100 years in 2022. Rents are now over 19 percent higher than when Biden took office.

“Before spending billions more on additional federal housing programs, we should take a good, hard look at why existing programs have fallen short. For decades, Senator Grassley’s conducted oversight over HUD and local housing agencies, exposing widespread waste, fraud, and abuse. Too often, the government overpays for poorly executed projects, and a maze of housing programs creates inefficiencies and a lack of accountability.

“Senator Grassley has found HUD does very little, if any, oversight of the housing authorities, so they get away with lavish office spending on salaries, vehicles, parties, and travel. All this while poor people are waiting in line, sometimes for years, for actual housing. Of today’s witnesses, Bill Slover, knows this all too well from his time exposing waste, fraud, and abuse in our housing programs right here in D.C.

“While we work to reform and improve our housing programs, the last thing American homebuyers need right now is more budget housing spending given our dire fiscal situation. As a nonpartisan congressional budget office recognizes, higher debt tends to increase borrowing costs in both the public and private sectors by driving up interest rates. Our current decades-high interest rates aren’t only causing taxpayers to pay record amounts of interest on the national debt, but also making it harder to afford their mortgage.

“This past fall 30-year mortgage rates peaked at nearly 8 percent, a 20-year high. Left unchecked, our rapidly rising national debt will continue to place upward pressure on interest rates, making the American dream of homeownership less attainable. Senator Grassley understands the desire to do more to help working families obtain affordable housing, but that won’t be achieved simply by throwing money at the problem. In fact, it only makes things worse.

“We need to start by rooting out the enormous amount of waste, fraud, and abuse.” We both welcome all of today’s witnesses. And I’ll only add, the numbers are quite shocking. In January 2021, the 30-year fixed mortgage rate average was 2.65 percent. That’s more than two and a half times over that now at 6.7 percent. I think the real shocking number is in Quarter 1, 2020. The average monthly

payment for a new home was \$1,787. Now, it's 1.86 times higher than that at \$3,322 per month, just under \$40,000 a year.

Those are shocking numbers, again, caused by massive government spending, which has turned a dollar that people held at the start of the Biden Administration into 85 cents. And from my standpoint, that's one of the primary root causes of a very significant problem, particularly for young people. So again, I appreciate the hearing, look forward to hearing more about what the root causes are. Thank you, Mr. Chairman.

Chairman WHITEHOUSE. Thanks, Senator Johnson. I'll introduce the witnesses now. Our first is Ms. Peggy Bailey. She's the Vice President for Housing and Income Security at the Center on Budget and Policy Priorities and also served in the Biden-Harris Administration as senior advisor on rental assistance to HUD Secretary Marcia Fudge. Welcome, Ms. Bailey.

Our second witness is Mrs. Carol Ventura of our own Rhode Island Housing. She's the Executive Director. She has over 30 years of experience in expanding access to housing, building livable communities, and leading economic efforts. She has dedicated her career to helping Rhode Islanders access housing opportunities and she leads a terrific organization that is very effective, and I actually served on its Board for a while as the Director of Business Regulations, so it's wonderful, Carol, to see you here in Washington. Thank you so much for sharing your time and expertise with us.

Our next witness will be introduced by our esteemed colleague from the great state of Ohio, who's visiting the Budget Committee today for purposes of making this introduction. Senator Brown.

STATEMENT OF SENATOR BROWN

Senator BROWN. Mr. Chairman, thank you. Ranking Member Johnson, thank you. A tremendous panel you've convened today. I'd like to quickly recognize Ms. Peggy Bailey for her work on my Banking, Housing, Urban Affairs Committee from the Center of Budget and Policy Priorities. She shared her expertise with our Committee many times. Good to see you, Ms. Bailey, but I'm going to introduce one member. I promise.

I'm honored to welcome a long-time friend I've known for 20 years, him and his family, have so many of our friends in common, Franklin County Board of Commissioners, Board of Commissioners' President. We have three commissioners in each county. He's the President of the County Commissioners in Columbus, Kevin Boyce. Welcome to the Senate Budget Committee, Mr. Boyce.

He's been a leader in Ohio for more than two decades. He was a member of the Columbus City Council. He's been State Treasurer. He's been a member of the legislature and now is County Commissioner in Ohio's largest and fastest growing county. Commissioner Boyce deals every day with the housing challenges this Committee will discuss today. Central Ohio, as I said, is the fastest growing region of the state, by far, thriving business, growing investment, more and more families are making Central Ohio, especially Franklin County, home because of the work we've done to bring crucial industries like semiconductor manufacturing to Ohio.

There's tremendous opportunity. That's the good news. The demand for affordable housing will only increase, as will transportation challenges. Columbus residents, whose family ties to the city go back generations, are now all too often being displaced from neighborhoods that they've called home for decades. Commissioner Boyce was on the frontline of these challenges as a member of the Board of Franklin County Land Bank, the Mid-Ohio Regional Planning Commission, the County Planning Commission, he's seen the challenges. He's also helping to craft the solutions and the Committee will gain from that today.

He brought his expertise to the National Association of Counties. He was co-chair of the Housing Taskforce last summer. Under Commissioner Boyce's leadership, the taskforce released a report to help communities across the country to tackle housing challenges. He also, last year, in a very busy schedule, he also helped establish Adelphi Bank, Ohio's first Black-owned bank, to advance economic opportunity. I cannot overestimate how important that venture is, how significant that effort is.

He serves as a member of Adelphi's Board, along with friends whom I've also known for 15, 20, 25 years, former Columbus Mayor Coleman, Karen Morrison, and Alex Shumate, Larry James, helping to support homeownership at some of the most challenging times, helping to support entrepreneurship and investment, particularly in Ohio's Black community and Columbus's Black community. It's about creating opportunity for people who've been denied for too long to buy homes, to start businesses, build wealth, and have been victimized by predatory housing investors.

Commissioner Boyce, thanks for appearing today to share your expertise. Thank you, to the Committee, for giving me the opportunity to, Mr. Chair, to introduce Mr. Boyce. Thank you.

Chairman WHITEHOUSE. Thank you, Senator Brown. Following Mr. Boyce, we will hear from Mr. Bill Slover, who is Principal at AVCO Interests and a former chair and commissioner of the D.C. Housing Authority Board. Welcome, Mr. Slover.

Our final witness today will be Dr. Todd Walker. Dr. Walker is the Walter Professor, Professor of Financial Economics and Director of the Center for Applied Economics and Policy Research at Indiana University. He's also a research professor at the Deutsche Bundesbank Bank, the German Central Bank. We welcome his testimony. And if I may turn first to Ms. Bailey, you may proceed with your statement. Your complete testimony will be made a part of the record, and we look forward to your five-minute testimony orally.

STATEMENT OF PEGGY BAILEY, VICE PRESIDENT OF HOUSING AND INCOME SECURITY, CENTER ON BUDGET AND POLICY PRIORITIES⁴

Ms. BAILEY. Thank you, Chairman Whitehouse and Senator Johnson, and members of the Committee. I really appreciate the opportunity to testify before you this morning. We're currently facing a housing affordability crisis and it is most acute for people with the lowest incomes who are more likely to be renters.

⁴Prepared statement of Ms. Bailey appears in the appendix on page 34.

Over the 20 plus years of my career in housing policy, rarely does a week go by where I don't receive at least one call or an email from someone desperate for housing assistance without any idea of where to get help. Every time I reply I can't shake the worry and concern I have knowing that getting assistance is like hitting the lottery.

Solving this problem rooted in the longstanding and persistent gap between average renters' income and the cost of rent requires congressional action in four key areas: expanding rental assistance, increasing supply of new units, preserving existing affordable housing, and strengthening fair housing and tenant rights protections.

In order to solve a problem, the reasons behind the problem have to be properly diagnosed. As a nation, we have spent too long blaming and punishing people for being poor, for not having a home, for being evicted, or for struggling to pay their bills. The primary reason people struggle to pay their rent is that there is a gap between 30 percent of their income—the general standard for determining housing affordability—and their rent costs.

Imagine the grocery store worker you depended on so much during the pandemic. This worker might be a single parent with two kids. If they make \$15 an hour, their salary is about \$31,000 a year if they work full time. Thirty percent of that income a month is \$775. Even if the kids share a room, please tell me where that parent can rent a two-bedroom apartment for \$775 a month. With the average monthly rent for a two-bedroom apartment in 2022 being \$1300, the answer is likely nowhere.

As Chairman Whitehouse mentioned, recent estimates from the Joint Center for Housing Studies at Harvard, show that about 22 million renters pay more than 30 percent of their income on rent and about 12 million of these people pay 50 percent or more, an all-time high. And this is not a new phenomenon. This chart shows that the gap between rents and incomes is persistent. And even when incomes go up overall, they don't completely catch up with rent costs.

Workers with low wages, seniors, people with disabilities, people living outside, and many other people aren't paid enough, through no fault of their own, to afford rent. They urgently need financial assistance to afford a place to live. Housing is not a "nice to have" for any of us. It is a basic human need. Housing assistance prevents people from unnecessarily dying on the street. It helps children do better in school, it prevents evictions that make it even harder for people to find housing, and it helps ensure families don't have to choose between paying the rent or paying for other basic needs like medicine, clothing, and food.

It's also an economic issue. People can't work in communities where they can't afford housing. Increasing access to affordable housing helps employers attract employees and creates more jobs, thus stimulating the economy. We need a comprehensive strategy to make rental housing affordable for all.

First, Congress needs to fully fund rental assistance to meet the need. In the short term, Congress should fund voucher renewals in 2024. In the long-term, rental assistance should be expanded to reach all families who need it, prioritizing the people with the lowest incomes. And Congress should utilize the mandatory side of the

budget for rental assistance expansion to ensure funding adjusts as costs and needs rise.

Next, we need to invest in revitalizing public housing and other aging, affordable housing developments. Existing affordable housing must be preserved, or we'll never keep up with the supply need. Also, we must increase and streamline funding for affordable housing supply, both rental housing and single-family developments. Affordable rental housing is often expensive to build and then is often more expensive to build than market-rate housing due to complicated financing and other regulations and rules. And affordable single-family housing is needed because it can help ease cost pressures in the rental market and help families attain an important step towards stabilizing their financial futures. Some of these are state and local issues, but program alignment at the federal level is critical.

Finally, federal, state, and local governments should increase investment in fair housing solutions and tenant protections that contain rent costs, ensure housing quality, and allow tenants to live in neighborhoods of their choice that work for them and their families. Thank you again for the opportunity to testify and I look forward to answering your questions.

Chairman WHITEHOUSE. Thank you very much. Mrs. Ventura.

STATEMENT OF CAROL VENTURA, EXECUTIVE DIRECTOR, RI HOUSING⁵

Mrs. VENTURA. Mr. Chairman, Senator Johnson, and members of the Committee, thank you for this opportunity to testify on the serious housing affordability challenges facing our country. I'm Carol Ventura, the Executive Director of Rhode Island Housing, the housing finance agency for the State of Rhode Island. We provide financing and counseling to help low- and moderate-income households buy and keep a home, provide rental assistance to low-income renters, finance the development and preservation of affordable housing, and service our single and multi-family mortgage portfolios.

Like many states, Rhode Island is facing a critical housing shortage, which has contributed to significant increases in housing prices. The state is simply not producing enough housing to meet the needs of its residents. Over the past decade, Rhode Island's rate of housing permitting has ranked last in the nation, and as housing production has slowed, vacancy rates have decreased. Not surprisingly, as vacancy rates have decreased, housing costs have increased significantly. Over the past five years, the median price of a single-family home has increased 49 percent, and the average rent has increased 23 percent. Across Rhode Island, around 150,000 households, one third of our population, are housing cost burdened.

Federal investments made through the American Rescue Plan Act played an important role helping Rhode Island recover from the effects of the pandemic. The state has invested \$321.5 million in state and local fiscal recovery funds to support housing and homeless programs. Rhode Island Housing is administering just

⁵Prepared statement of Mrs. Ventura appears in the appendix on page 46.

over \$206 million of these resources, \$30 million has provided first-time homebuyers with downpayment assistance, and \$175 million is financing the development and preservation of affordable housing.

To date, over \$100 million has been committed to financing more than 1,400 affordable homes and another \$32 million is supporting site acquisition and pre-development activities for 62 proposed affordable housing developments. These new development resources have been particularly impactful because they've allowed us to better leverage other important development resources like the Federal Low Income Housing Tax Credit, particularly, the 4 percent housing credit.

The historic investments that Congress has made in housing and homeless programs have been vital, but much more needs to be done. There are several steps that the federal government could take to address housing affordability challenges. First, increase appropriations for housing production and rental assistance programs. Affordable housing development programs like HOME Investment Partnerships Program (HOME), the National Housing Trust, and the Capital Magnet Fund are critically important.

Inflation, supply chain issues, and increasing land costs have all contributed to significant increases in the cost of housing development. That means we need significantly more subsidies through these programs to produce the same number of units. The cost of renting and operating housing has also risen significantly. To mitigate these increases, more investment is needed in rental assistance programs.

Second, pass the Affordable Housing Credit Improvement Act (AHCIA). One of the most important steps Congress can take to increase the supply of affordable housing is to pass the Act. This bill would significantly increase the allocation of 9 percent housing credits building upon the success of this powerful financing tool. The Act also reduces the amount of tax-exempt bond financing required to access 4 percent housing credits and making other important improvements to the program. The AHCIA will significantly increase affordable housing production and we urge you to pass it.

I know Congress is currently considering a tax package that includes several important elements of the Act. Rhode Island Housing strongly supports these provisions and urges Congress to act quickly to adopt this important package. Finally, permanently extend the Federal Financing Bank, HUD Risk Sharing Initiative. HUD's risk sharing program provides mortgage insurance for affordable housing developments financed by housing finance agencies.

In 2014, a new tool was made available that combined HUD's Risk Sharing Mortgage Insurance with low-cost financing provided through Treasury's Federal Financing Bank. This program has been a very effective tool in Rhode Island and in many other states, and we urge Congress to make the program permanent.

Thank you again for dedicating this hearing to the important housing affordability challenges facing our country. I'm honored to have had this opportunity to testify before the Committee and to share Rhode Island Housing's experiences.

Chairman WHITEHOUSE. Thank you, Mrs. Ventura. We're delighted to have you here. Mr. Boyce.

**STATEMENT OF KEVIN BOYCE, COMMISSIONER, FRANKLIN
COUNTY BOARD OF COMMISSIONERS⁶**

Mr. BOYCE. Chairman Whitehouse, Ranking Member Grassley, Senator Johnson, and certainly, Senator Brown, thank you for the warm introduction, as well as distinguished members of the Committee. Thank you for the opportunity to testify today on the state of our nation's housing crisis, the approach counties are taking to address it, and the critical role that our intergovernmental partnership plays in crafting comprehensive solutions.

My name is Kevin Boyce and I currently serve as the President of the County Board of Commissioners in Franklin County, Ohio. Additionally, over the last year, I've had the honor of serving as co-chair of the National Association of Counties, NACo, Taskforce on affordable housing.

Franklin County is Ohio's largest county with over 1.3 million residents and one of the fastest growing in the region. Our county seat, Columbus, is the state capital and America's 14th largest city. This size makes our region a major economic engine, not only for the state, but for our nation. Currently, we are home to many national institutions, including the Ohio State University, five Fortune 500 companies, and nearly 20 Fortune 1000 companies. This growth does not come without its growing pains, though, which is why I'm honored to join you here today.

Housing constraints within our county and the region have increasingly become a focal point of local policymakers, perspective employers, and community members alike. In addition to sharing my personal story on the vital role that stable housing played in my life, I'll be touching on recommendations from NACo on how the federal government can further help and support counties' local efforts to increase housing accessibility and affordability.

Many colliding factors contribute to the current housing affordability crisis. Housing costs have been rising steadily, largely outpacing wages, which has placed an increased financial burden on renters and homeowners alike. In 2021, roughly half of the renters and one in three homeowners were cost burdened. The median price of homes increased by more than \$107,000 in Quarter 1 2020 to Quarter 1 2023, while rents have increased by 16 percent in the same timeframe.

Not only are Americans facing higher housing costs, but the stock available for renting and owning is increasingly limited. Nearly 80 percent of homeowners who currently have a mortgage hold an interest rate below 5 percent, keeping housing inventory at record lows. These statistics lend context to a problem counties know all too well. Housing affordability is increasing out of reach for our residents.

In Franklin County, four of every ten renters are cost burdened, spending more than 30 percent of their annual income on housing. Since 2010, the population within the county has grown 14 percent

⁶Prepared statement of Mr. Boyce appears in the appendix on page 52.

while total housing units in the county have increased only 10 percent, further widening the gap.

My story is similar to many American families that are stuck in cycles of poverty. In the course of my K through 12 years of primary and secondary education, I attended 11 different schools. Statistics would suggest a pathway of outcomes that reflect a trajectory of instability, educational deficiencies, and even potentially incarceration, but I was fortunate to learn two very important lessons. First, the best social service is a good paying job. And secondly, housing is fundamental to stability.

I sit here today as the former Treasurer of the State of Ohio, current president of Ohio's largest county, and the founder of Adelphi Bank, but I'm most proud of is seeing the cycle of poverty broken in my own family where my oldest son is a double Ivy League grad. Brown University, I might add, Mr. Chairman. And my youngest is a senior at a top institution in Los Angeles. My story is one of countless stories that the American people can tell about housing, how it's changed their lives and changed the lives of future generations.

By 2050, the region is expected to grow by more than a million residents with an estimated regional population increasing to 3.15 million. Of that, Franklin County is expected to absorb at least half of the regional growth. With a team of more than 30 of my colleagues from across the country, NACo's Housing Taskforce worked to find county-led solutions to address our nation's growing housing crisis, understanding that counties have governance limitations, we looked towards our partnership with our federal government colleagues to enhance the current and future housing programs and ensure that we have the required tools to reduce the cost burden facing our homeowners and residents.

In collaboration with NACo, I offer the following recommendations: (1) invest additional federal resources to adequately support housing needs, (2) modernize and strengthen current federal programs, (3) provide more direct and local government funding opportunities, and (4) simplify programs and reduce burdensome compliance requirements on local governments.

In conclusion, Carol mentioned many of the programs that we support as counties need more of, quite frankly, but I'd be remiss if I didn't recognize the bipartisan nature working with Senator Brown and Vance, Congresswoman Beatty and Kerry, and even my wife, Congresswoman Sykes, to ensure that our partnership impacts the lives of the residents that we all serve.

Mr. Chairman and members of the Committee, thank you so much for having me today and I look forward to your questions.

Chairman WHITEHOUSE. Thank you so much, Mr. Boyce. We'll next hear from Mr. Slover.

STATEMENT OF BILL SLOVER, PRINCIPAL, AVCO INTERESTS, LLC⁷

Mr. SLOVER. Thank you. Thank you, Chairman Whitehouse, Ranking Member Grassley and Senator Johnson, and members of the Committee. I appreciate the opportunity to discuss the critical

⁷ Prepared statement of Mr. Slover appears in the appendix on page 66.

issue of housing affordability. My name is Bill Slover and I have over 30 years of experience in both public and private sector real estate. My testimony centers on my near 10 years on the D.C. Housing Authority Board (DCHA) emphasizing the challenges faced, the impact of poorly functioning agencies on housing affordability, and recommendations for reform.

DCHA plays a critical role, housing over 18,000 low-income families with an annual budget of over \$500 million. When I was first appointed as chairman by the mayor in 2009, my goal was to enhance affordability and housing quality. Immediately recognizing the need for fundamental change, I pushed for greater accountability, improved financial management. My efforts faced resistance, resulting in my swift removal as chair. My term ended without tangible progress.

Rejoining the Board in 2015 as the advocate representative, I again pushed for efficiencies, reform, and better financial stewardship. Despite exhaustive efforts, the agency's decline persisted. By the fall of 2021, the situation necessitated reaching out to HUD, resulting in a scathing review published in September of 2022. The HUD report highlighted DCHA's systematic failures through 80 plus findings, including potential violations of conflict of interests from multimillion dollar contracts and suspected overspending in the \$300 million plus voucher program, just to name two.

The HUD report identified five principal issues contributing to DCHA's failure, including inadequate oversight, poor management, lack of expertise, and a failure to provide decent, safe housing. The report emphasized the need for immediate remedial action. Rather than addressing the HUD findings collaboratively, the mayor and the D.C. City Council disbanded the independent board, replacing with mayoral appointees and awarded the existing executive director a \$40,000 bonus. This drastic response removed all independent voices from the Board.

A year after these changes, there is little evidence of meaningful reform at DCHA. Recent news in the Washington Post highlights continued struggles in the voucher program, the city's largest program. The need for decisive intervention remains. Despite my experience at DCHA, I'm a strong believer that Public Housing Authorities (PHA) play a critical role in solving the housing affordability crisis. They are tasked with housing, as many of our most vulnerable populations possible with the resources they have.

It's simple math. If the agency is inefficient and spends more money on basic operations, fewer people get housed, causing a negative ripple effect across the entire housing space. HUD needs to completely rethink its oversight of PHAs as the current process is failing far too often. Absent this, no amount of money pumped into PHAs will result in sustainable progress towards increased access to housing. Money will not solve what is a failure of execution compounded by a lack of oversight and accountability.

HUD should do these three things before providing any additional funding to PHAs: enhanced oversight. HUD must revamp its oversight of PHAs, setting clear, key performance indexes to track, report, and achieve results, and intervene as soon as an agency gets off track. Change governance structure. PHA governing bodies

need to be held directly accountable to HUD rather than local and municipal leaders.

As Senator Grassley has pointed out repeatedly, PHAs rely too heavily on local officials to be good stewards of billions of taxpayer dollars, which is no way to exercise fiduciary responsibility. Demand qualified leaders. Until PHAs can execute the basic functions of managing properties, setting rental rates, and overseeing waiting lists, they will continue to underperform. PHAs are operating businesses and need to be run as such.

I hope my experience can inform this Committee as it considers how to best allocate taxpayer dollars towards our nation's housing challenge. We need to better understand why costs are so high and production is so low and begin to make the necessary market corrections needed to increase the efficiencies of the space.

Thank you again and I look forward to answering any of your questions.

Chairman WHITEHOUSE. Thank you, Mr. Slover. Dr. Walker is next.

STATEMENT OF DR. TODD WALKER, WALTER PROFESSOR OF FINANCIAL ECONOMICS, INDIANA UNIVERSITY⁸

Dr. WALKER. Chairman Whitehouse, Ranking Member Johnson, Committee members, thank you for the opportunity to speak with you today on such an important topic. It is an honor to be here.

With the recent increase in mortgage rates, housing has become substantially less affordable today than just a few years ago. Let's compare two families. Family One purchases the median priced home with a 20 percent downpayment at the 30-year fixed rate mortgage available in January of 2021. Family Two purchases the same home at today's mortgage rates. Family Two will pay an additional \$800 per month and an additional \$285,000 in interest payments over the life of the loan.

For a family making the median income, the additional mortgage payments of \$800 per month constitute 20 percent of disposable income. This prohibitive increase in the cost to purchase a home comes at a time when the price of all goods and services are increasing dramatically. The good news is the rate of inflation has been coming down. The bad news is that changes in the price level since 2020 have made essentials like groceries 25 percent more expensive.

Inflation is a tax on everyone, and families are still feeling the pinch. Housing costs are, by far, the largest items in a family's budget. If housing becomes more affordable, this makes food, education, childcare, transportation, and all other necessities more affordable as well. What does this analogy have to do with the budget of the United States Government. The only difference between these two families is the mortgage interest rate they pay. This interest rate is tightly connected to the interest paid on the 10-year U.S. treasury bond.

Since 1990, these two-time series have moved in lockstep with a near perfect correlation of 0.98. As the common phrase reminds us, correlation is not causation, but in this case the economics are

⁸Prepared statement of Dr. Walker appears in the appendix on page 143.

clear. Causality runs from the 10-year yield to mortgage interest rates and not the other way around. If the interest on the 10-year treasury increases, mortgage rates will increase. If the 10-year yield falls, mortgage rates will fall.

So, what determines the interest rate on a 10-year U.S. treasury? This question is much more difficult to answer. However, the long-run foundational anchor of U.S. sovereign debt must be fiscal policy. There are three important considerations for the Committee. First, in response to the financial crisis of 2008 and the COVID-19 pandemic, the Federal Reserve engaged in a policy called quantitative easing that opposed the 10-year yield below market-based equilibrium. This diminished the sensitivity of long data maturities to fiscal policy over the last 15 years. These policies are currently being undone. As quantitative easing gives way to quantitative tightening, fiscal policy will once again take center stage in price discovery for the treasury market.

Second, paying interest to bond holders for debt service is now the third largest expense of the federal government, only behind Social Security and Medicare. Debt service will soon exceed one trillion dollars per year, if it hasn't already. The CDO projects debt service to grow to 3.6 percent of GDP over the next decade, an all-time high. Bond traders recently burned by unanticipated inflation to the tune of a record-breaking 46 percent decline in bond prices are now much more leery of inflation-inducing fiscal expansions.

When inflation is anticipated, higher rates of interest are required to compensate for the lost purchasing power. As debt service grows, it will crowd out other spending needs. Finally, increases in government spending to support the economy during the pandemic were on par with increases to finance World Wars I and II. Following the great Wars, through a reduction in spending and increases in tax revenue, debt Gross Domestic Product (GDP) ratios gradually, yet substantially declined.

This is consistent with optimal economic policy. Shocks like wars and COVID should be smoothed over time. However, no such fiscal consolidation is currently on the horizon. Sizable deficits are projected for the foreseeable future. This will certainly put upward pressure on the 10-year treasury yield, making housing less affordable. When it comes to housing affordability, there aren't many things more important than mortgage rates, given that mortgage rates track the value of U.S. debt very closely, fiscal policies initiated by this Committee have a direct impact upon housing costs.

While other countries have struggled to reopen following the pandemic, the strength of the U.S. economy has been on full display. This economic growth can and should be used to coordinate a well thought out and gradual fiscal consolidation consistent with optimal economic theory. Such a consolidation will make housing more affordable. I look forward to your questions. Thank you.

Chairman WHITEHOUSE. Thank you very much, Dr. Walker. Let me first ask Mr. Slover a question for the record, which means you can answer in writing and give a chance to sharpen your pencil and put your head to it. You've given general recommendations to make sure that Public Housing Authorities avoid the problem of the D.C. Authority. If you'd be good enough to submit for the record more detailed proposals, you have a lot of members here

who've proposed legislation. None of us support fraud or abuse and to the extent we can get helpful proposals to consider in legislation, consider this your opportunity to do that. Would you be willing to do that?

Mr. SLOVER. I'd be very happy to, and I appreciate the opportunity. Thank you.

Chairman WHITEHOUSE. Great. Thank you. And Mrs. Ventura, you heard Mr. Slover about his unfortunate experience with the District of Columbia Authority. Are we seeing some more problems around Rhode Island in your dealings with other housing organizations in other states? How endemic do you think the problems are that he has spoken of in the District of Columbia?

Mrs. VENTURA. We are not experiencing a similar situation in Rhode Island. We have extremely competent housing authorities that are doing solid work on the ground, serving the people of Rhode Island, providing excellent housing opportunities, and frankly, services. Services are very key to helping people transition from public housing, the voucher program, into solid working environment, home ownership opportunities, so no, we are not experiencing this, Senator.

Chairman WHITEHOUSE. And given the number of parties that it takes to pull together a Housing deal, when we go to the ribbon cuttings there're usually five to ten different parties—private banks, consultants, different government funders. There are a lot of eyeballs on these deals before they come to fruition. Correct?

Mrs. VENTURA. Yes, that's correct.

Chairman WHITEHOUSE. So, tell me a little bit about your experience with first-time homebuyers. The average age for a homebuyer climbing from 29 to 36 is a statistic. It's a pretty grim fact for young families. How do you see that playing out and do we need to repair that?

Mrs. VENTURA. Yes. Thank you for that question, Chairman. As housing prices have increased, and they certainly have increased, along with mortgage interest rates. We're seeing significant increases in the average income of a buyer in Rhode Island, and in the size of their mortgages. The average income for a homebuyer in Rhode Island in 2023 was \$92,000 and that's up around 44 percent.

Chairman WHITEHOUSE. You have to be making around \$92,000 to be affording a home.

Mrs. VENTURA. Yes. Over that same timeframe, our average loan amount increased to \$344,000, so that's an increase of 55 percent compared with 2019, so there are certainly challenges in the market. One of the barriers that we see to achieving homeownership is the downpayment and that's why the \$30 million that our governor set aside for downpayment assistance was extremely helpful. We provided a \$17,500 grant to first-time homebuyers and we were able to assist over 1500 first-time homebuyers purchase their homes, so it was an important tool. Unfortunately, those resources are fully reserved, and we don't have any additional funding available. We'll continue to provide our resource, which is a \$10,000 deferred loan, but it's challenging to find homes that are affordable. You know that, Chairman.

Chairman WHITEHOUSE. Thank you. Ms. Bailey, make the policy case between housing affordability and economic growth.

Ms. BAILEY. Thank you, Chairman. The connection between housing affordability and economic growth is inseparable. Having affordable housing helps people be able to access work. Also, building more affordable housing creates jobs for the people that are building it and for the people that will have to operate it. It helps people, in general, be able to be more stable in the community and engage in work, but engage in all of the things that a community provides. And lastly, it helped being able to provide rental assistance is particularly important because we know that when people with low incomes are given housing subsidies and other subsidies by the federal government, it allows them to invest those resources back into the community. They don't save that money. They spend it in their community, which helps economic growth as well.

Chairman WHITEHOUSE. And Mr. Boyce, you used the phrase intergovernmental partnerships. That implies a federal role. What is the importance of a federal role in those intergovernmental partnerships supporting adequate housing?

Mr. BOYCE. Thank you, Mr. Chairman. Let me begin with the many programs that Carol identified from Home Funds to Choice Voucher programs, I mean all of those are catalysts to helping families, people like me who grew up in a tough and impoverished environment. But moreover, it's the continued creativity around the partnership, having access to new ideas and new resources and thinking through some of the proposals that allow for increased homeownership like expanding the duration of mortgage lending or with the FHA mortgage lending standards or home funds that allow us to expand affordable housing.

Throughout our community in Central Ohio, there are communities that kind of have the NIMBY syndrome, Not In My Backyard syndrome where they cite housing standards as a barrier to affordable housing, but those home funds in many cases allow us to mitigate the cost of certain materials or certain products that allows us to spread the affordable housing in communities that otherwise might not have the permitting or variance resources to allow for it.

Chairman WHITEHOUSE. Thank you very much. The order now is for Senator Johnson and then Senator Kaine. I will take advantage of Dr. Walker being here and his commitment with Deutsche Bundesbank to put into the record the report from the Network for Greening the Financial System of which Deutsche Bundesbank is a member in which the network makes the point that we've made in this Committee before that climate-related risks are a source of financial risks. I'm quoting the executive summary here.

"Climate change will affect the global economy and so the financial system that supports it, the financial risks it presents are in consequence systemwide," a phrase we've heard repeatedly in our testimony, "and potentially irreversible if not addressed." Senator Johnson, without objection, that'll be put in the record, and Senator Johnson, the floor is yours for questions.

STATEMENT OF SENATOR JOHNSON

Senator JOHNSON. Thank you, Mr. Chairman. I want to start talking—tell a little story. A few years ago, I was invited down to Milwaukee to visit and learn about a program called the ACTS, A-C-T-S, Housing Program. It was started by a catholic priest. And basically, this catholic priest was taking advantage of a number of foreclosures on very-well constructed homes in the early 1900s that had fallen into disrepair and were under foreclosure and he was able to buy these homes for a few thousand dollars. And then with the help of private lenders, some Wisconsin banks, individuals that were renting, low-income individuals renting, paying too high rent, were able to borrow 15 to \$30,000, put a sweat equity, and own a home, and literally cut their rental payments in half or more.

And it was a great program. I toured a number of homes. The homeowners did a great job of repairing these homes on a shoestring, but one of the main reasons the priest invited me down was to complain about the impact of the low-income housing tax credit on his program. What was happening is contractors were using that low-income housing tax credit. They were snatching up all those homes in foreclosure, putting hundreds of thousands of dollars into those well-constructed homes and pretty well taking the opportunity away from lower income individuals.

So again, that was a well-intended program, a federal government program impacting a private sector program and disadvantaging low-income individuals, so I just had to kind of tell that.

My questions really have to do with a functioning market, generally supply will meet demand, particularly when demand is boosted by \$100 billion plus of government funding. I'll start with you, Dr. Walker, and this is a general question for everybody. Why isn't supply meeting demand? What is causing it? Obviously, inflation is a huge problem affecting interest rates, causing costs, but ahead, Dr. Walker.

Dr. WALKER. So, I think based upon the expert testimony, we all agree that housing affordability is important. I hear a lot of supply constraints, so on the supply side, if it's the supply side and supply constraints are the problem, and some of the policy proposals that are on the demand side, like vouchers, would make the problem even worse. It gets back your example of an unintended consequence, right? So, if you have a demand side solution to a supply side constraint, then you're going to have an increase in home prices which will make matters worse, or you're going to displace people who don't have access to the voucher. That's going to lead to a race to the bottom where people are going to try to get just below the point where they can access the voucher.

Why supply is so constrained I think there's regulatory issues that could be addressed. Mr. Slover probably have more information about those, but I just wanted to briefly mention, again, based upon your example, there are unintended consequences of all these policies. And I think when you have a supply side issue, and you address it what a demand side policy you have unintended consequences that could be much worse.

Mr. JOHNSON. I'd like a little more detail on that. Again, I just want to throw a couple of things, rent controls, obviously keep

down the supply because it's just not worth investing in things. Obviously, high interest rates drive up the costs, over regulation. Mr. Slover, and I apologize for mispronouncing your name in the opening statement, but can you enlighten us on this?

Mr. SLOVER. Just to sort of build on what Dr. Walker was saying, I think one of the unintended consequences of some government programs I think it's sort of an idea versus execution which is a way I like to simplify things sometimes. You know in Washington, D.C., as an example, the D.C. Housing Authority Board approved a rent payment standard of 187 percent of what HUD thinks fair market rent is. So now, the D.C. Housing Authority has 12 to 15,000 rents that they're willing to pay upwards of 187 percent of what HUD thinks is the fair market rent.

What that does is floods the market with people—with payments that are above what the market is and that puts pressure on the rest of the market because now you have someone overpaying significantly for units which pushes up prices lower and also creates an industry where people actually go out and purchase organically existing low-income housing and remove those residents and back-fill it with higher paying vouchers. It's an entire business model out there where people promote a business plan which says the arbitrage, the government-funded subsidies is my business plan.

I'm going to buy a building at a cap rate of "X". I'm going to empty it out and I'm going to fill it back in and my cap rate is going to double because the rent doubled and that's an unintended consequence.

Senator JOHNSON. I mean that's really exactly what happened in Milwaukee, similar to that, with the low-income housing tax credit. I guess for the majority witnesses, I only say all you're asking for is more and more federal government spending and I understand that. Some of it's appropriate, but when we have this massive amount of deficit spending, which is the cause of the inflation which drives up the interest rates, which drives up the cost of housing, I mean, it's just a self-perpetuating problem. It's not the solution. It's part of the root cause. Thank you, Mr. Chairman.

Chairman WHITEHOUSE. Senator Kaine, the sponsor of the LIFT Act and the Fair Housing Improvement Act.

STATEMENT OF SENATOR KAINE

Senator KAINE. Thank you, Mr. Chair, and thanks to the witnesses. This is a very important topic. Since we are in a discussion about macroeconomic trends, I do think it's important to mention the set of articles that have just come out in the last few days, exemplified by one in the Washington Post of January 28th from David Lynch that I'd like to add to the record, "Falling inflation, rising growth give the U.S. the world's best recovery." There are economic challenges, but one of the ways to look at these challenges is to look at how other nations, Europe, Canada, Mexico, Japan, China have dealt with COVID and post-COVID and the assessment is that the U.S. has done the best job in coming out of COVID, and not that every economic issue is solved, but in terms of inflation going down and the recovery dramatically stronger than what was predicted, dramatically stronger than other nations, there's a lot to be said for the policy actions that have been taken

by Congress in order to help the U.S. have this strong economic recovery.

Now, on housing, I was a fair housing lawyer for 18 years before I got into state politics and so this is a topic that's very, very close. I was also a local elected official and a governor dealing with the Low Income Housing Tax Credit (LIHTC), dealing with HOME funding, and knowing how important it is. During my time, now nearly 30 years on July 1, in elected office from the local, state, and federal levels, I go around the state and talk to a lot of people. And I will say the cost of housing usually would be in the Top 10 over much of my career and in the Top 3 in Northern Virginia, but now it's Top 5 everywhere in Virginia.

I could go to the most rural parts of my Commonwealth or Northern Virginia, it's going to be Top 5 or a Top 3 issue, so this is a significant one and I would say particularly for first-time homebuyers—the Chairman put some stats in about that, that I think are important, the percentage of purchases that are first-time homebuyers has been going down and so we need to figure it out.

One of the things I'm real concerned about are obstacles and barriers within housing that enable people, even if they could afford housing, to find obstacles in their way and so I want to ask about a particular bill that I've been working on, the Fair Housing Improvement Act. The Housing Choice Voucher Program provides rental assistance to allow families to find rentals that work for them. There are other programs like Section 8 vouchers. Veterans Affairs (VA) has some housing choice vouchers. And in theory, families can use this assistance to move to neighborhoods of their choice and get access to schools, get access to transit, and get access to jobs.

However, what we find is many landlords and those who have rental properties say that they refuse to take vouchers. They refuse to take government income as a source of income, and they use that as a reason to turn people down. We don't accept Section 8 vouchers. We don't accept Housing vouchers. We don't accept some of the VA vouchers. I think there's a significant body of evidence that suggests that that's pretextual. The notion of we don't take vouchers. You'll take somebody's paystub when they could be sacked tomorrow as evidence of their ability to pay. Somebody having a voucher—a voucher is a much more likely long-term reliable source of income than anybody's paystub would be.

What we've seen around the country, including in Virginia, is commonwealths and states adding to the Fair Housing laws and prohibiting discrimination on the grounds of source of income. I introduced a bill first with Senator Orin Hatch to do this. Utah was one of the early states in the country that prohibited discrimination on the source of income, and we haven't yet been able to get that passed. I have helped and encouraged Virginia to pass it at the commonwealth level and I think it's working.

But I have a bill at the federal level, and I guess I'd like to ask Ms. Bailey how would you see something like the Fair Housing Improvement Act making it easier for people to afford housing when they have a source of income that would enable them to pay the rent?

Ms. BAILEY. Thanks Senator and thanks for the work on this really important issue because we also know that source of income discrimination can also be a proxy for racial discrimination and discrimination for people with disabilities because we know the voucher program serves all people and particularly people with disabilities and people of color. So, this is critically important, and it can make a difference.

Having a law is important, also putting the resources behind enforcement of the law is a critical component of any source of income antidiscrimination measures because we have to make sure that landlords know that there will be action taken if they discriminate against voucher holders because we just need everyone to be able to have a safe place to call home.

Senator KAINE. Great. Thank you. The last thing I'll say and then hand it back, Mr. Chair, is that I'm a big fan of the LIHTC Program. Just watching how—the Virginia Housing used to be the Virginia Housing Development Authority—uses those federal dollars to incentivize the construction of low- and moderate-income rental property and putting requirements in that means significant percentages of those receiving the LIHTC funding have to be accessible units for seniors, for folks with disabilities.

Much of the accessible housing stock in Virginia has been produced through smart use of LIHTC, so I'm a strong believer that you don't have to create a new program when you have one that's working. You just need to do more of it, and I think LIHTC is one of those. With that, thanks to the witnesses. I hand it back.

Chairman WHITEHOUSE. And thank you to Senator Kaine for his extremely knowledgeable leadership in this area. Senator Padilla.

STATEMENT OF SENATOR PADILLA

Senator PADILLA. Thank you, Mr. Chair. Maybe not for as many years as Senator Kaine, but I too have a diversity of experience having started in the local government, a member of Los Angeles City Council once upon a time, having served a couple terms for the California legislature before coming to the Senate, so I've seen the challenges of creating additional housing, whether it's a need for additional affordable housing to housing affordability crisis through multiple angles, and so, yes, our housing crisis is primarily a crisis of supply at this point.

Having been intimately familiar with negotiating deals and seeing successful development and those that were great visions, but failed to come to fruition it's because of oftentimes the bottlenecks or the bureaucracy, and the well-intended measures to regulate housing production have also, at times, become a barrier to increasing the housing supply that a growing population needs.

Typically, a developer will first secure a site before pursuing subsidies in the forms of grants or loans from multiple sources to amass the capital necessary before then applying for tax credit, if that's what it takes to get a project to pencil. Clearly, that can take a long time, often years and years and years. This has essentially also shut out small scale developer who lack the financial resources or expertise to navigate government bureaucracy and has increasing driven builders to turn to the private sector for capital to fund permanent and affordable housing units. But most of us agree

housing is a human right and private investment alone cannot be the solution to the housing crisis.

We must provide additional funding to improve the efficiency of the traditional affordable housing development process in order to increase the pace of housing production to keep up with the need that is clearly out there. A question for both Ms. Bailey and Mrs. Ventura. How could we streamline federal programs so that developers can more easily navigate and maximize available public funds?

Ms. BAILEY. Thank you, Senator, for this question. First, what I think is critically important is to think about the HUD programs that have been put together to invest in capital resources. Those programs were developed independent of each other and not designed to be able to necessarily work together, so they're critically important—and they also haven't been reauthorized in quite some time.

So, looking at those programs collectively so that we streamline them, make them easier to work together and do exactly as you suggest, close those gaps because in development time is money.

Senator PADILLA. Mrs. Ventura, same question.

Mrs. VENTURA. Thank you. I would certainly echo what Ms. Bailey had to say, Senator. I think that it's like a jigsaw puzzle when you try to put these transactions together. They are complicated and they're difficult and very often we will provide technical assistance to help developers get through that process, but certainly agreeing that streamlining process on a federal level, aligning the programs better would certainly help expedite the process.

Senator PADILLA. Thank you. I look forward to working with both of you to pursue that, recognizing that, first of all, we need the input from the folks who practice this, the developing community, but also recognizing that what it takes to build in Los Angeles can be different than what it is to build in Bakersfield, California, which is going to be different than Texas versus New York versus Montana, et cetera.

I want to make sure my time remaining to touch on one other area and that's homelessness and the lack of affordable housing are not new issues, but clearly unacceptable that more than 650,000 people—I'm taking veterans, families, young people, seniors experience homelessness on any given night in the United States each and every year. And even more American experience housing insecurity. So, they may not be experiencing homelessness yet, but one small stroke of bad luck and they may very well find themselves in that situation, which is why I was proud to introducing my Housing for All Act, which would strategically surge federal investments in existing programs to reduce housing insecurity and increase funding for innovative, locally developed solutions.

As Senator Kaine said, if we have successful programs, we don't need additional programs to compete with them. Let's just amplify, let's scale up. And homelessness is not just an urban or just a rural issue. It's not just a Red state or just a Blue state issue. It affects all states, all counties, all communities.

Ms. Bailey, what innovative solutions could the federal government invest in to keep more people housed and prevent more Americans from falling to homelessness?

Ms. BAILEY. So, the pandemic actually showed us the way in this space. With the Emergency Housing Voucher Program, HUD was given additional flexibility to alter how the voucher program worked and gave housing authorities additional resources to provide the services and be able to lease up a population that we generally consider among the hardest to serve, folks who have been experiencing homelessness and the housing authorities were able to do that in record time. This has been one of the more successful programs we've had in being able to take a resource from Congress and house folks quickly.

The other thing I would say is experimentation in how to streamline the voucher program would be really critical and one idea is to provide direct rental assistance to tenants. Right now, rental assistance goes to the landlord. If we could provide rental assistance that looks more like cash from the landlord's perspective it could get rid of some of the source of income discrimination and streamline the process so that renters would be able to use the dollars more flexibly.

Senator PADILLA. My time is up, but I just call my colleagues attention to not just helping address housing affordability in the short term, but you can appreciate the ripple effects in terms of greater economic benefit for local communities, for the state, and for the nation. Thank you, Mr. Chair.

Senator KAINE. Next up, Senator Braun.

STATEMENT OF SENATOR BRAUN

Senator BRAUN. Thank you, Mr. Chairman. I heard coming in successful programs and the things try to do through the federal government. Always commend any good idea that looks like it's got sustainability and is actually addressing a problem. I can tell you when I travel across my own state the issues that come up most often would be the high cost of healthcare, workforce, and if it's not third, it's fourth, would be affordable housing and high-speed Internet.

So, my concern is I think you're always going to get decent ideas, but for them to be dependable it's got to be based on a foundation of sustainable financing. And what concerns me most, and we're in the Budget Committee, is that we've got to pay more attention that regardless of what topic we're talking about. And here, of course, it's housing. So, I think my concern, and I'd like to get some opinions on what you think about sustainability when—I'll cite these numbers and how confident you'd be that the business partner, the federal government is going to be there for the good idea that might come across a legislative bow, so to speak.

We were five trillion in debt, I think, cumulatively, up through the Bush Administration, added another five trillion from 2000 to 2008. To keep score, that's 10 trillion. From '08 to '16, the Obama Administration, we added another six trillion. That's 16 trillion. Structuralized annual deficits, meaning cumulative debt with it, at a trillion dollars a year '17 and '18. I arrived in '18 and have been the loudest voice on for whatever you like through the federal government, hopefully, you'd get the operation working, prioritize, and make the best decisions.

Well, COVID came along and kind of blew the doors off that thought. That was kind of a once, hopefully, in a century that we have to contend with. I think we spent a ton of money. Every penny was borrowed basically. The next result is we're 34 trillion in debt and the only template out there has been put out by the White House. It has us 42 trillion in debt in five years, 52 in 10 years. I'm not going to go through the arithmetic, but start pricing in part of the interest rate increase, it's going to overwhelm the system.

Indiana University, we appreciate balanced budgets. We generate one annually. We live within our means. And I want to ask a few others the same question. Does it make sense to be talking about more when we're burdening future generations at the tune of a trillion dollars every six months currently that we borrow? Mr. Walker.

Mr. WALKER. So, the numbers themselves are alarming. That a percentage of GDP that are increasing, which deficits as a percentage of GDP are going to continue to go up. I'll defer to my testimony, making a very tight link between Treasury interest rates which are supported by fiscal policy and mortgage rates, which is all about housing affordability. I think there's a very tight link there.

So, what concerns me is we do have an amazing economic recovery and yet we continue to spend higher and higher fractions of GDP, which means debt GDP ratios are going to increase, and as I said in my testimony, I think this is going to put upward pressure on 10-year U.S. treasuries which is going to put upward pressure on mortgage rates, which is—

Senator BRAUN. Which, ironically, housing is the most sensitive part of our economy to that very phenomenon.

Mr. WALKER. Absolutely. And that's going to make housing much less affordable.

Senator BRAUN. Thank you. Mr. Slover.

Mr. SLOVER. Yes. I think as part of my testimony, I think, and then listening to everybody on the panel as well, I just think we have an idea versus execution problem, as I said before. I think the inefficiencies of the execution, at least in the places I've been in government, in the D.C. Housing Authority, in the Chicago public schools, Detroit public schools, I've worked in a lot of small cities. Inefficiencies are abounding and so I think what you have to—

Senator BRAUN. If you took care of the inefficiencies, could you still take on the onslaught of those heavy numbers I just described with our current behavior?

Mr. SLOVER. Well, I think what I'm trying to say is you've got—no. I think what you have to do is—before you can continue to ask for more and more money, you have to actually have accountability. You have to have a return on investment. You have to understand are you being efficient with the money that you have—

Senator BRAUN. That's a great point.

Mr. SLOVER [continuing]. Prior to asking for more.

Senator BRAUN. Bravo. Okay, Mr. Boyce, would you want to weigh in on that?

Mr. BOYCE. Thank you, Senator. The only thing that I would add with my background a little bit here is I'm an investment banker

by practice and license, and I was the former treasurer of the State of Ohio, and I firmly believe—I certainly believe what Mr. Slover was saying, but I firmly believe that analyzing debt is more about not how much you have of debt, but your ability to pay on it.

Senator Braun. So, you feel good about—with everything I just mentioned that we'd have the ability to pay. I come from the finance world, and I can tell you the biggest issue we're going to have as a country, and it's inevitable, the numbers never relent, will be that you couldn't extrapolate what you said into this place working reasonably. Sooner or later that—you can't just keep doing that, can you?

Mr. BOYCE. But embedded in that is the ability to pay on your debt. And again, what I look at—

Senator BRAUN. Principal as well as interest?

Mr. BOYCE. Of course. Of course. Of course. Embedded in that, though, in the debt, is the job creation and all of the various tentacles that expand from job creation. When you talk about LITHC and the use of those tools and what it actually means in the bigger sense of the debt allocation is—you know, there you're talking about creating stable housing opportunities so that families can become self-sustained, so that they don't have to rely upon the system. And so, somewhere in this conversation is balance, somewhere in this conversation is reasonable analysis of both your ability to manage your debt and your ability to pay on your debt.

Senator BRAUN. Thank you.

Senator KAINE. Senator Braun, thank you very much and I now turn to Senator Van Hollen.

STATEMENT OF SENATOR VAN HOLLEN

Senator VAN HOLLEN. Thank you, Mr. Chairman. Thank all of you for being here today to talk about this very important subject. And clearly, housing affordability is a huge issue everywhere in our country. I hear about it all the time in the State of Maryland and the lack of adequate supply is a big piece of that and we need to look for more ways to incentivize and encourage more supply. It's also very important, in my view, that we continue to support the rental assistance programs like the Housing Choice Voucher Program. I've introduced a bipartisan bill, along with Senator Todd Young of Indiana. It's entitled the Family Stability and Opportunity Vouchers Act and what it does is make use of the housing choice vouchers combined with wraparound services for families with young children. And there's been ample research, including by Raj Chetty that indicates that when you provide families with that opportunity to move to areas of greater opportunity, both the housing component as well as wraparound services, you see significant breaks in generational poverty.

Ms. Bailey, I know that you've looked at these issues broadly, the Housing Choice Voucher Program, the impact on making sure that kids have a secure place to call home. Could you comment on why it's important, both to maintain that, but also to look at providing these wraparound services for families with young kids?

Ms. BAILEY. Yes, absolutely, Senator. And this actually ties well to Senator Braun's question as well, right? We have to remember that there's a cost to doing nothing as well. There's a cost to fami-

lies and to kids and to people who are living unhoused on the street to doing nothing that oftentimes isn't talked about. We also talk about affordable housing as purely an issue of homelessness. It is a larger issue than that. Many people are currently housed. If we gave them a little bit more assistance to be able to afford where they live today, then that also controls the affordability crisis as well. And that stems into how the role that housing can play in children's lives.

We know that children with stable housing do better in school and in the long run, as Dr. Chetty's work shows, earn more as adults and it's the wraparound services that are the secret sauce to that. Being able to help families connect to childcare locally, being able to help families navigate the school system and staying with families for as long as they need it, and as flexibly as they need services is a key component of that.

Senator VAN HOLLEN. Well, I appreciate that. So, Senator Young and I pushed a number of years ago to create a pilot program to help these families with young kids move to areas of greater opportunities with those wraparound services and it very quickly demonstrated what the research has shown, which is, this is a way to help break the cycle of poverty, which is why we proposed to expand that particular program by 250,000 vouchers over the next five years.

As we indicated, all of you have indicated in your testimony, supply is another major factor here. In December of last year, AXIOS estimated, based on data from the Census Bureau and Moody's that there is a shortage of around 3.2 million housing units relative to population demand in the United States. I know in my home state of Maryland we're talking about a shortage of at least 96,000 units. There are a number of programs designed to help address the supply thing. You've all mentioned the low-income housing tax credit piece. There's also the Home Investment Partnership Program, Community Development Block Grant (CDBG). If you could, Mrs. Ventura, and maybe Mr. Boyce, just speak briefly to how those programs can help expand the supply of housing and therefore improve the situation with respect to affordability.

Mrs. VENTURA. The programs that you mentioned, the Home Program, the Capital Magnet Fund, and the National Housing Trust are all critically important programs, and we use them in partnership with the 9 percent credits, the 4 percent housing credits. Without those resources, we would not have the numbers that we have in Rhode Island in terms of production and preservation of housing, so they are terrific programs. We hope for more resources to be invested in these programs so that we can do more for the people of our state.

Senator VAN HOLLEN. Thank you.

Mrs. VENTURA. Thank you.

Senator VAN HOLLEN. Mr. Boyce.

Mr. BOYCE. Thank you for the question, Senator. I would just add to Carol's comments that CDBG funds, in particular, in home funds I know in Franklin County have allowed us to use those funds to invest in infrastructure dollars that often can tie directly into a specific development to reduce the cost of rent or the cost of purchase on those homes. And so, to me, there is a direct cor-

relation to the ability to access more affordable and quality housing.

The other point I would like to raise is just that it allows us, as counties, to think about the public infrastructure, ranging from roads and streets to public transit access and even planning of medical resources, medical institutions and so forth. And so, all of those are things that we, as county commissioners, take into account when we're planning out the growth or development of certain corridors within our community.

Senator VAN HOLLEN. Thank you and thank you all. Thank you, Mr. Chairman.

Senator KAINE. Senator Merkley.

STATEMENT OF SENATOR MERKLEY

Senator MERKLEY. The shortage that my colleague from Maryland mentioned is certainly true in Oregon. We estimated we're about 110,000 units short, but in addition, we have the challenge that any developer wants to develop high end housing because there's so many folks to the south of us in California in the San Francisco area where the Dot Com boosted the value of houses, so you can sell your house for a million plus dollars to move to Oregon. So, there was a ready supply of buyers for high-end and so a developer doesn't want to develop normal family housing when they can make more money building McMansions.

I want to turn to a different part of the puzzle, though, and that is the involvement in hedge funds. Since 2009, when we had massive foreclosures, they were sold in bulks of a thousand or more houses at a time. The only people that could buy them were hedge funds. Hedge funds discovered that this was a fabulous investment, both from appreciation, appreciation that would've gone to middle-class families.

I lobbied the Obama Administration hard to make them available to families because they were being sold 50 cents on the dollar at the time and they said it was just too complicated and they were worried about slowing the process where houses might be exposed to frozen pipes or vandals stripping copper and so forth. But the long and short of it is the hedge funds became deeply invested in this market and they've continued to do so seeing how fabulously profitable it is.

They're buying now about a quarter of the houses that are available, especially in the southern marketplaces like Phoenix and Atlanta, but it's affecting states like Oregon as well. Ms. Bailey, this situation affects rents and the price of homeownership both and people have said, well, how does it affect the renters. And my basic understanding that I want clarification from you on is, first of all, if an investor pays more for a house, they're going to charge higher rents. It's going to drive up the rental market, in general. But also, if renters who have the income to buy a house can no longer buy a house because they're competing against a hedge fund that means they don't move out of the rental housing and that rental housing supply is going to remain shorter and therefore at a higher market price. Can you help us understand? Are the hedge funds having an impact on the affordability of rents as well as homeownership?

Ms. BAILEY. Yes, Senator. As you explained it, that's exactly right. We're really concerned about renters, especially higher-income renters who are staying in the market longer than they would otherwise and therefore driving up the cost because 30 percent of their income is higher and so they can pay more. But we're also concerned for the renters themselves, not only paying more rent, but also for families, in particular families with kids.

Single-family housing is one of the ways—it's really important to them. It provides the size, it's often in places with better schools and other amenities that families with kids need and so we really need to maintain affordability in the single-family rental market for low-income families with kids.

Senator MERKLEY. I really saw when I was director of Habitat for Humanity how an affordable mortgage or affordable rental housing was huge to the stability of family, and I saw kids whose lives improved enormously when they had that stake in the community through an affordable, decent home and a decent community.

Mrs. Ventura, your organization has helped tens of thousands of families enter home ownership through mortgage financed programs and tens of thousands that is awesome. That is tremendous. Now, if the hedge funds are targeting, if they were, I don't know to what degree they are, start targeting Rhode Island and driving up the prices how would that affect the opportunity of families to buy homes? Because they'd then be competing against all cash, no inspection offers at a higher price point than the houses have been shortly before?

Mrs. VENTURA. So, Senator, I haven't heard that hedge funds are buying properties in Rhode Island. It's possible. I think that single family opportunities in Rhode Island, the opportunity to either lease a home or purchase a home is challenging. We're not building enough single-family inventory now. You mentioned Habitat and thank you for your work with Habitat. Habitat affiliates in Rhode Island do a terrific job providing just those opportunities, but we need to do more in our state in providing financing opportunities to develop that next level, leaving rental, home ownership, affordable homeownership, and the ability to build wealth.

Senator MERKLEY. Thank you. And I hope for our sake they don't start to target Rhode Island. You can visit your colleagues in Atlanta and Phoenix to find out the impact, or in Oregon.

Ms. Bailey, several state legislatures, including Oregon, have considered creating a rental housing registry system to provide clear data on landlords and homes in the rental market to really understand the dynamics of that market better. Would the benefits outweigh the challenges in setting up this kind of registry system?

Ms. BAILEY. Senator, it could. It could really help. Sometimes it's a black box, related to renting and being able to locate units for families, so putting in the resources that it would take to be able to—and making it as easy as possible for landlords to register, putting in the resources to maintain a system like that could play a significant role in helping families find a place to live. Right now, we know that housing authorities and other housing agencies are having to use resources to pay for realtors and others in order to help people with low incomes find rental units. Oftentimes, many

of us have to do the same thing. Having such a registry could make a difference in just making it easier to access rental housing.

Senator MERKLEY. I'll just close out with a comment on the hedge funds side. We have all our traditional programs, for example, housing vouchers. I spent an afternoon calling in the westside of Portland trying to find an apartment that would take a housing voucher and all the rents were way above the housing, so I didn't find one. And I just did that to kind of understand it personally. So, we have to amplify all of those programs, but we also have this factor, this factor since 2009 that has become a competitor with ordinary American families for basic, three-bedroom family—two or three-bedroom family house. That is something we could do that could make a profound difference that doesn't cost the government a single dime and then we should do it. We should get the hedge funds out of the housing business. Thanks.

Senator KAINE. Thank you, Senator Merkley. Here's what we're going to do. We have a vote that will start in a couple minutes. Senator Johnson has one additional point or question. I have one for Mrs. Ventura and then we're going to adjourn the hearing. Senator Johnson.

Senator JOHNSON. Thank you, Mr. Chairman. Chairman Whitehouse did ask Mr. Slover if he would give some thought to and provide questions for the record. I want to make the same request from all of you and this is a very sincere request. As I said in my questioning, and it's been kind of reinforced throughout this thing. We've got a problem of supply. We have tremendous demand, whether it's from hedge funds, whether it's from \$100 billion plus in government funding—and again, I come from free market system. I've got a great deal of respect for how a functioning market responds to demand, you know, from high end all the way to low end products.

So, there's a breakdown in the marketplace. I have my suspicion. I used one example of a very well-intentioned program that I'm sure does a lot of good. The low-income housing tax credit, but it has some unintended consequences. And Mr. Slover, you talked about it, unintended consequences in the D.C. market as well. So, I guess I'm really asking all of you to give some real thought to what is the fundamental root causes. And again, I think it's a little more complex. I think there are a number of factors in here, but what is preventing the market from responding to the demand?

When you heard a figure of 3.3 million housing units, so that's a market opportunity and it doesn't necessarily have to be three, four, five hundred thousand dollar homes. I know in Oshkosh, philanthropists funded I think something like 50 micro housing units for families to get in. And again, it maybe not be where everybody would want to live, but it's clean, it's safe. There are alternatives here the marketplace can respond to, so it's really a very sincere request if you can really rack your brain and go, what is preventing the market from responding with all this demand? There is. There's tremendous demand. There are tremendous dollars being thrown at this. Why do we have such a constriction of the supply?

Senator KAINE. If I could, just to back to what I was talking about my fair housing career, first-time homeownership is really important and yet there's significant racial disparities. The racial

homeownership gap in Virginia is more than 20 percent. A lot of the federal programs we've talked about today deal with affordable rentals and of course that's very, very important, but I think we need to look at smart strategies that will help more people become homeowners.

I've joined with Senators Warner and Warnock on a bill, the LIFT Act, which would provide more affordable mortgage options for first generation homeowners. And I understand, Mrs. Ventura, that Rhode Island Housing has piloted a down payment and closing cost assistance program for first generation homebuyers who complete a homeowner education course. Talk a little bit about that program and what you've learned that might be helpful to us as we think about trying to do something similar.

Mrs. VENTURA. Yes. Thank you for asking about this program. We did a pilot a first gen downpayment assistance program. It is geographically targeted in areas that have very high concentrations of low-income renters, so it tends to be in our urban core, and we provide a \$25,000 grant to participants in the program. They have to complete a higher level of homebuyer assistance in our traditional downpayment assistance program. We think that it's important to educate them as they are first generation buyers. And so, they can take that \$25,000 down payment and buy anywhere in the State of Rhode Island and we're seeing a high percentage of people purchasing in what we would call high opportunity areas, great schools. So, we believe we're certainly moving the dial on creating homeownership opportunities for people of color and we plan to continue it.

One other thing I would add, Senator, is we created a home secure program that accompanies this. It's a \$5,000 escrow that we create for participants in the program and it's almost like a security deposit if something goes wrong.

Senator KAINE. A major system, furnace, or something. Yes.

Mrs. VENTURA. Exactly. Exactly. So, they can use that. If they use their resources to pay for the boiler, if it goes, then they can use that security fund to make their mortgage payment. If at the end of five years, they don't use the resource or whatever the balance is, we apply a principal reduction to their mortgage.

Senator KAINE. Thank you for sharing about that. And to all the witnesses, this has been a really good hearing. We appreciate the work that you all do, your willingness to testify today, and we, obviously, have included your full written statements in the record. As information for all senators, should any senators have questions, and you've gotten a couple of questions from the record from Senator Johnson and Senator Whitehouse, particularly to Mr. Slover and others. If any other senators want to put questions in from the record, we would ask that they do that by noon tomorrow. Email copies will be accepted. And then, if there are such questions, some have been raised already, we would ask witnesses to try to respond within seven days of receipt. With no further business before the Committee, and with a vote on, the hearing is adjourned.

[Whereupon, at 11:36 a.m., Wednesday, January 31, 2024, the hearing was adjourned.]

**Opening Statement of Chairman Sheldon Whitehouse
Senate Committee on the Budget
A Blueprint for Prosperity: Expanding Housing Affordability
January 31, 2024**

Welcome back, Senator Johnson. This morning, we'll discuss how investments in expanding housing affordability can drive economic growth.

For decades, the United States has faced a housing affordability problem. It is a market failure many years in the making, and the 2008 financial crisis and the COVID-19 pandemic made it worse.

After the housing market collapsed in 2008, new housing supply for single- and multi-unit buildings declined. Even as demand recovered, supply continued to lag. Now, housing is taking up a larger share of household budgets, and low- and middle-income families are being priced out of the market.

Owning a home, once seen as a foundational piece of the American dream, is further out of reach for more Americans now than ever before. The National Association of Realtors finds that first-time homebuyers made up just 26% of homebuyers in 2022 compared to 38% in 1981. And today, the typical age of a first-time homebuyer has reached a record high of 36, up from 29 in 1981.

With fewer people able to purchase homes, more people rent. That's created a shortage of rental units, driving up the cost of rent. New research finds that half of all renters in the United States spend more than 30 percent of their income on rent and utilities, more than at any other time in history.

Across the country, the U.S. faces a shortage of four to seven million housing units available for sale or rent. In Rhode Island, there are currently no communities where families earning the state's median income can afford to buy a typical home, and there's only one town where Rhode Islanders earning the state's median income can affordably rent. According to Zillow, the Providence area experienced the largest year over year rent increase in the country last year – a 7.5% increase.

The squeeze is bad for our entire economy, it's bad for income inequality, it's bad for families, and it's particularly bad for young people. I've heard from young people around Rhode Island about the importance of affordable housing, and I intend to do something about it.

Unaffordable housing decreases job retention and lowers productivity. It can force businesses to relocate, taking job opportunities with them. A lack of available housing reduces local tax revenue, reducing local resources for education, public safety, and infrastructure.

Nationwide, the shortage of affordable housing opportunities costs the American economy an estimated \$2 trillion each year. High housing costs reduce disposable income and economic mobility, stifling economic opportunities.

Investing in our nation's housing infrastructure would provide relief to millions of Americans and drive economic growth, particularly in local economies.

Helping families have a safe, stable place to call home should not be controversial. It's not red state versus blue state, not urban versus rural; Americans in all 50 states struggle with higher housing costs. Today, there is not a state, metropolitan area, or county where a worker earning the local minimum wage at 40 hours a week can afford a modest two-bedroom rental at HUD's Fair Market Rate standard.

As a nation, we have underinvested in housing: It's created a harmful situation for millions of families, and it is a significant drag on our economy.

We can and must take action to ensure housing is safe and affordable for all.

The Biden-Harris Administration has taken sweeping new steps to increase the housing supply, protect renters, and ease cost burdens.

The American Rescue Plan kept people housed during the worst of the pandemic recession and laid the foundation for jumpstarting new construction. Over \$14 billion of the Rescue Plan's State and Local Fiscal Recovery Funds have already gone towards expanding housing supply, investing in homeless services, and providing 3.7 million additional households with rent, mortgage, and utility relief.

Under President Biden's Housing Supply Action Plan, more new apartments were under construction in 2023 than in any year on record.

Our appropriations support housing programs like the HOME Investment Partnerships, Community Development Block Grants, and Housing Choice Vouchers.

But it obviously isn't enough.

Over these next few months, I will be introducing bills to assist homeownership for lower-income Americans. Next month with Congressmen Panetta and Blumenauer, I will propose a \$15,000 first-time homebuyers tax credit for lower income Americans — refundable, advanceable and available for homebuyers at the time of purchase.

Many of my Democratic colleagues have also come to the table with detailed proposals to expand housing affordability. This includes Senator Wyden's DASH Act; the LIFT Act, led by my colleagues Senators Warner, Van Hollen, and Kaine, among others; The Fair Housing Improvement Act, led by Senators Kaine and Sanders; Senator Merkley's End Hedge Fund Control of American Homes Act; the DEPOSIT Act, led by Senators Luján and Padilla, among others; and Senator Padilla's Housing For All Act. We'll hear about many of them today.

Ensuring access to safe and affordable housing is a moral and economic imperative. I hope it is something that we can find common ground on and advance this year.



**UNITED STATES SENATE
BUDGET COMMITTEE**
RANKING MEMBER CHUCK GRASSLEY

**Prepared Remarks by Senator Chuck Grassley of Iowa
Ranking Member, Senate Budget Committee
Delivered on Grassley's Behalf by Senator Ron Johnson of Wisconsin
Hearing titled, "A Blueprint for Prosperity: Expanding Housing Affordability"
Wednesday, January 31, 2024**

Mr. Chairman,

I appreciate your calling today's hearing on housing affordability. In my 99 County Meetings, I regularly hear from Iowans about the lack of housing, especially at a price they can afford.

While affordable housing is in short supply in many communities, this isn't due to a shortage of federal housing programs.

Currently, there are more than 100 housing programs at the federal level costing hundreds of billions of dollars a year. This includes over 70 billion dollars in the Department of Housing and Urban Development (HUD)'s budget alone.

Billions more are provided in programs outside of HUD, including through USDA, the Department of Defense, and the Department of Veterans Affairs.

On top of these programs, the tax code includes incentives for home ownership and the construction of low-income housing. There are also government loan guarantees and government sponsored enterprises to support the housing credit market.

Despite this litany of programs, affordable housing concerns remain a perennial issue. In recent years, inflation, driven by reckless federal spending under the Biden administration, has made problems worse.

In 2021, the price of homes increased by the largest amount in the history of the Case Schiller National Home Price Index at 19.3 percent and home prices are up over 32 percent since Biden took office.

While good for home owners, except for increased property taxes, renters felt the pain with rental prices increasing by the third largest amount over the last 100 years in 2022. Rents are now over 19 percent higher than when Biden took office.

Before spending billions more on additional federal housing programs, we should take a good hard look at why existing programs have fallen short.

For decades, I've conducted oversight of HUD and local housing agencies, exposing widespread waste, fraud, and abuse. Too often, government overpays for poorly executed projects and a maze of housing programs creates inefficiencies and a lack of accountability.

I found that HUD does very little, if any, oversight of the housing authorities. So, they get away with lavish office spending on salaries, vehicles, parties and travel. All this while poor people wait in line, sometimes for years, for actual housing.

Of today's witnesses, Bill Slover knows this all too well from his time exposing waste, fraud and abuse in our housing programs right here in D.C.

While we should work to reform and improve our housing programs, the last thing American homebuyers need right now is more budget busting spending given our dire fiscal situation.

As the non-partisan Congressional Budget Office (CBO) recognizes, "higher debt tends to increase borrowing costs in both the public and private sectors by driving up interest rates."

Our current decades-high interest rates aren't only causing taxpayers to pay record amounts of interest on the national debt, but also making it harder to afford a mortgage.

This past fall, 30-year mortgage rates peaked at nearly 8 percent – a 20-year high.

Left unchecked, our rapidly rising national debt will continue to place upward pressure on interest rates – making the American dream of homeownership less attainable.

I understand the desire to do more to help working families obtain affordable housing. But that won't be achieved simply by throwing money at the problem. In fact, it may only make things worse.

We need to start by rooting out the enormous amount of fraud, waste and abuse.

I welcome all of today's witnesses.





1275 First Street NE, Suite 1200
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

January 31, 2024

A Blueprint for Prosperity: Expanding Housing Affordability

**Testimony of Peggy Bailey, Vice President for Housing and Income
Security, Center on Budget and Policy Priorities,
Before the Senate Budget Committee**

Chairman Whitehouse, Ranking Member Grassley, and members of the Committee, thank you for the opportunity to testify before you this morning at this important hearing.

I am Peggy Bailey, Vice President for Housing and Income Security at the Center on Budget and Policy Priorities, a nonpartisan research and policy institute in Washington, D.C. In this testimony, I will discuss the pressing housing affordability crisis affecting people with the lowest incomes. I will recommend policies, with a focus on rental subsidy programs that help people afford housing, that will move us toward the goal of ensuring that everyone in this country is able to afford safe, stable housing in a community of their choice.

Solving the Affordable Housing Crisis Would Strengthen the U.S. Economy

New data analysis from the Joint Center for Housing Studies at Harvard University (JCHS) finds that the number of households paying more than one-third of their income on housing (both rental and single-family housing) has grown to 42 million, the highest level since 2011.¹ Of these, 22.4 million are renters.

Examining the data more deeply, JCHS found that more than half of cost-burdened renter households — 12.1 million — pay more than 50 percent of their income on rent, which is an all-time high. And while affordability has worsened for renters at all income levels, households earning less than \$30,000 per year have the worst affordability issues, with 80 percent of these renters paying more than one-third of their income on rent.

A growing number of people can't afford homes at all. On a single night in January 2023, 653,000 people were experiencing homelessness in the United States, a 12 percent increase from a year earlier and the highest number ever recorded.²

Typically, renters who must pay very high shares of their income for housing have to divert money away from other necessities to keep a roof over their head, such as by going without needed

food, medicine, clothing, or school supplies. As those unmet needs pile up, families often find themselves one setback — a cut in their work hours or an unexpected bill — away from eviction or homelessness. When families with low incomes receive help meeting these basic needs, they put those resources back into the economy by buying food, clothes and other essentials.³

Affordable housing also directly impacts employment and job creation. People can't work in communities where they can't afford housing.⁴ More affordable housing options can help employers attract employees, making it a key tool to address local labor shortages. In addition, increasing funding to renovate or create affordable housing is a job creator. Similar to other infrastructure projects like road construction, improving housing and increasing supply requires people to build the development, manage and maintain the building, and attend to other housing-related needs.⁵

Finally, stabilizing a family in housing they can afford helps them engage in the workforce in a more consistent and productive way. The family can live closer to their job and not have concerns about evictions which, when they happen, cause them to move — maybe farther from work — or spend time away from work looking for a new home.⁶ Plus, stable, good-quality housing improves people's physical and mental health, making them more productive and happier overall.

Families' Inability to Afford Housing Is Primarily Due to Insufficient Incomes

The most pressing housing challenge has been a long-standing structural problem: millions of people simply don't have enough income to afford market rents. A surge in rents between 2020 and 2022 was accompanied by an increase in incomes but not enough to close this persistent gap.

This often is characterized as a problem caused by the lack of supply of units. While supply is an issue, it is important to recognize that most people have a place to live and are not seeking to move; they simply struggle to afford their current residence. One reason supply investments alone are rarely enough to enable the lowest-income households to more easily afford housing is that these households typically can't afford rent set at a high enough level for an owner to cover the ongoing cost of operating and managing housing.

For example, the average extremely low-income renter household had an income of \$11,451 in 2021.⁷ (The Department of Housing and Urban Development, HUD, defines extremely low income as below the federal poverty line or 30 percent of the local median income, whichever is higher.) Government programs and private-sector owners and lenders often consider housing affordable if rent and utilities cost no more than 30 percent of household income, which for this household works out to \$286 a month. Many households, including those most at risk of homelessness, have much lower incomes and can afford even less in rent.

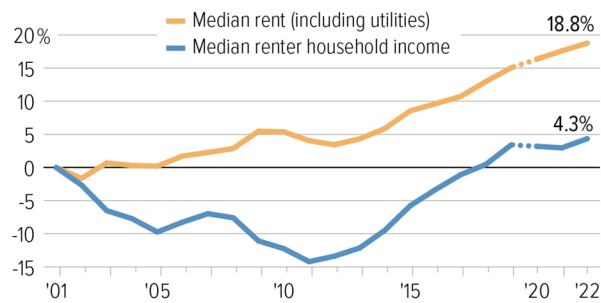
But in 2021 the average rental unit's operating cost was \$566 a month, according to an industry survey.⁸ The "operating" cost excludes the cost of building the unit, buying the land, or major renovations — or ongoing payments on loans taken out to cover those costs — and any profit to the owner. Consequently, even if development subsidies pay for the full cost of building housing, rents in new units will generally be too high for extremely low-income families to afford without the added, ongoing help rental assistance can provide. This example is theoretical and highlights a unit with the cheapest rent possible. That isn't reality. Most new units in the last few years are meant for higher-income renters, with rents at or above fair market levels. (HUD defines Fair Market Rents as the 40th percentile rent for units within a given metropolitan area or nonmetropolitan county).⁹

The growth in rents has moderated since late 2022 — in some markets they are still increasing but at a more modest rate, while in other markets they are decreasing.¹⁰ However, housing costs remain high for many families, and renters' incomes haven't kept pace. Median rent rose nearly 19 percent from 2001 to 2022 while median renter household income only increased 4 percent, after adjusting for the overall inflation rate. (See Figure 1.) This persistent gap between rents and income leaves many families with few affordable housing options.

FIGURE 1

Renters' Incomes Haven't Caught Up to Rising Housing Costs

Percent change since 2001, adjusted for inflation



Source: CBPP tabulations of the Census Bureau's American Community Survey

Note: Dashed line indicates missing 2020 1-year ACS data due to pandemic-related data collection issues.

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

Impact of the Affordable Housing Crisis

Difficulty affording housing is heavily concentrated among households at the bottom of the income scale. Nearly everywhere in the country, rents are too high to be affordable to people with the lowest incomes, including low-paid workers,¹¹ low-income families with children, and older adults and people with disabilities who have low fixed incomes.¹²

Nearly two-thirds of households earning less than \$30,000 paid over half their income in rent in 2022, and these households are far more likely than higher-income households to experience homelessness and other housing-related hardship.¹³

Due to a long history of racial discrimination in housing and other areas, these problems are disproportionately concentrated among people of color. Over 63 percent of people in low-income households that pay more than half their incomes for housing are people of color.¹⁴ Renters of color, particularly Black renters, are also more likely to face eviction than white renters. Despite making up less than one-fifth of all renters, Black renters account for over half of those affected by

eviction filings in a given year, putting them at higher risk of losing their homes and experiencing homelessness.¹⁵ Black people make up nearly 13 percent of the U.S. population but were 37 percent of unhoused people in 2023.¹⁶

Other people of color also disproportionately face homelessness due to the gap between their incomes and the cost of housing. Native Hawaiian and Pacific Islanders experience the highest rates of homelessness, followed by American Indians and Alaska Natives, Black people, and Latine people.¹⁷ People with disabilities are also overrepresented. Over half of adults and heads of households and 40 percent of youth staying in a shelter reported having a disability in 2021.¹⁸ And 1 in 3 unhoused people experienced chronic homelessness in 2023, meaning they both had a disability and experienced extended or repeated homelessness.¹⁹

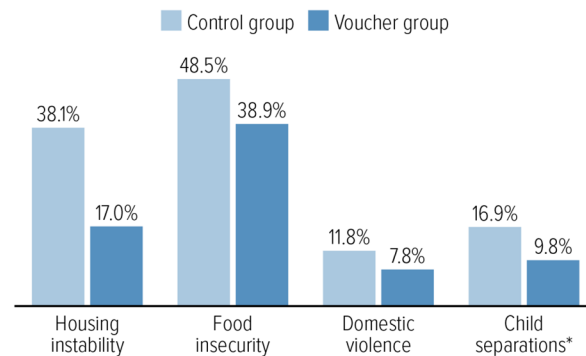
In addition to people who are unhoused, too many people who currently reside in existing affordable housing units, such as public housing and other federal subsidized multi-family developments, are living in dilapidated conditions that are increasingly unsafe and unhealthy.²⁰ Unfortunately, their income levels and lack of affordable housing options make it difficult for them to move to a better housing unit. Their assistance is tied to the property and isn't portable to a new place. This leaves people trapped in substandard housing.

Rental Assistance Helps Families With Low Incomes

Tenant-based rental assistance, like the assistance provided through the Housing Choice Voucher program, is a large piece of the solution for the problems explained above, research shows. Housing vouchers sharply reduce homelessness, overcrowding, and housing instability. (See Figure 2.) And because stable housing is crucial to many other aspects of a family's life, those same studies show numerous additional benefits to vouchers. Children in families with vouchers are less likely to be placed in foster care, switch schools less frequently, experience fewer sleep disruptions and behavioral problems, and are likelier to exhibit positive social behaviors such as offering to help others or treating younger children kindly. Among adults in these families, vouchers reduce rates of domestic violence, drug and alcohol misuse, and psychological distress.²¹

FIGURE 2

Vouchers Reduce Hardship for Families Experiencing Homelessness



Note: The control group consisted of homeless families who were not offered vouchers or other assistance under the study.

*These data are the results reported 20 months into the HUD Family Options Study. All the other chart data are from the completed 3-year study.

Food insecurity = someone in the household had inadequate access to food at some point during the year.

Housing instability = family reported spending at least one night homeless or doubled up in the past six months or stayed in an emergency shelter in the past year.

Source: Gubits et al., "Family Options Study 3-Year Impacts of Housing and Services Interventions for Homeless Families," Department of Housing and Urban Development (HUD)

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

Expanding rental assistance can also sharply reduce racial disparities in poverty rates and a range of housing hardships. For example, one study estimated that providing vouchers to all eligible households would lift 9.3 million people above the poverty line, using a measure of poverty that counts in-kind benefits such as rental assistance as income. Poverty rates would drop for all racial and ethnic groups but most among Black and Latine households, reducing the gap in poverty rates between Black and white households by one-third and the gap between Latine and white households by nearly half.

Similarly, people of color would be particularly likely to benefit from reducing homelessness, overcrowding, and evictions and other housing instability as a result of additional vouchers.²² Moreover, resources for tribal housing programs, such as HUD's Indian Housing Block Grant (IHBG), would be particularly helpful for reducing housing hardship in tribal areas. American Indians and Alaska Natives living on tribal lands face higher rates of overcrowding and substandard housing,²³ compared to the national average for all households.

Out of respect for their sovereignty, tribal nations receive federal housing funding through flexible grants such as IHBG instead of through programs like Housing Choice Vouchers, Project-Based

Rental Assistance, or public housing. However, the funding in the IHBG is currently far too low to address the acute housing needs in these communities so more investment is critical.

Pandemic Relief Proved Federal Investments Can Succeed and Are Needed

The successes of housing relief that policymakers enacted in response to the COVID-19 pandemic demonstrate the impact of making significant investments in programs that promote housing stability. As the pandemic took hold, it became clear that housing assistance would be a critical piece of the response. Federal, state, and local governments acted to mitigate harm and help keep people housed during the public health emergency. This included the creation of the Emergency Rental Assistance (ERA) program and funding for 70,000 Emergency Housing Vouchers (EHVs) for people experiencing or at risk of homelessness and survivors of domestic violence and trafficking. As a result, evictions dropped below historical rates and homelessness mostly held steady during the initial pandemic response until resources, particularly in the ERA program, ran out.²⁴

Congress provided a total of \$46.5 billion for the ERA program, which has helped more than 6.5 million households with rent or utilities. This level of resources devoted to housing during a crisis was unprecedented and, combined with eviction moratoria and other diversion efforts, prevented more than 1 million evictions nationwide, by one estimate.²⁵

Even after the federal eviction moratorium ended in August 2021, ERA, eviction diversion programs, and other assistance programs helped reduce evictions in 2021 to levels at half the historical rate. As remaining local eviction moratoria expired and more ERA programs began pausing or ending their programs, eviction rates increased in 2022 but remained below the historical rate until the end of 2022 when many communities had depleted their ERA funds.²⁶

Although the population eligible for ERA was fairly broad — people with incomes at or below 80 percent of the area median income who experienced a loss of income and faced housing instability — the program succeeded in reaching the people facing the greatest risk of eviction. For example:

- Some 64 percent of ERA recipients had extremely low incomes, which was double their share of those eligible, an analysis of equity in ERA conducted by the Government Services Administration's Office of Evaluation Sciences found.²⁷
- ERA recipients, as compared to the overall target population, were more likely to be Black, American Indian and Alaska Native, and Native Hawaiian or Pacific Islander renters — groups that face the highest eviction risks.²⁸ Beyond the context of the pandemic, Black women are the group most likely to face eviction because of differences in wages, historic and ongoing housing discrimination, and other factors such as likelihood of children in the house, so ERA's effectiveness at reaching this group is important.²⁹

The success of ERA demonstrates the importance of investing in housing. First, it shows that when resources are provided, communities will use them effectively to help more people afford stable housing. Second, and more importantly, the uptake of ERA shows how many people are experiencing or one setback away from housing instability. The ERA program was designed to help people recover from financial shocks caused by the pandemic, and a permanent program would undoubtedly strengthen the country's housing assistance system. But this short-term, temporary relief is no substitute for significant investment in well-targeted, long-term rental assistance and

other measures to close the gaps between rents and incomes, especially for people facing the greatest economic hardships.

The American Rescue Plan funded 70,000 EHV's in recognition that some households would need longer-term assistance, especially given pre-pandemic national trends in housing insecurity. The EHV program is designed to reach people facing the greatest barriers to stable housing. An early analysis of the program found that those receiving EHV's on average have an income of \$11,349, which is about 27 percent less than the typical voucher household.

As of July 2022, the EHV program had the fastest leasing rate of any previous HUD housing voucher program.³⁰ This program's success shows that additional rental assistance can be successfully used, even in tight markets. But because of its limited size, the program only reaches a small share of those who need ongoing assistance to afford rent.

We Need a Comprehensive Strategy to Make Housing Affordable for All

Rental assistance is by far the most direct, effective way to address the nation's most severe housing problems. While all federal rental assistance (this includes programs administered by both HUD and the U.S. Department of Agriculture) helps 10 million people in 5 million households afford housing, it only reaches about 1 in 4 households in need.³¹ Policymakers should sharply expand rental assistance, ultimately building toward a program that guarantees assistance to every person with a low income who needs it.

. Congress must:

- Maintain the current number of households receiving rental assistance *and* begin to expand rental assistance to reach all families who need it. This includes utilizing the mandatory side of the budget for rental assistance expansion to ensure that funding adjusts as costs and needs rise and prioritizing expansion to reach all people with the lowest incomes first;
- Make larger and streamlined investments that increase supply of affordable housing;
- Increase investment in fair housing solutions and tenant protections; and
- Invest to revitalize public housing and other aging affordable housing developments.

Protect and Expand Rental Assistance

Rental assistance programs are typically funded as if housing is optional for families, not a necessity. With only 1 in every 4 eligible households receiving rental assistance, the level of investment clearly does not match need. The spending caps under the debt ceiling agreement set tight limits for non-defense discretionary funding, which makes it challenging to maintain the number of families receiving assistance as rent rises, let alone to make the investments needed to meaningfully reduce the large number of families who face very high rent burdens that strain the family and all too often result in housing instability, eviction, and homelessness. Indeed, the funding levels for the voucher program in both the House and Senate appropriations bills — which were initially set before the cost needs of the program were fully known — would result in a *loss* in the number of families receiving rental assistance.

A loss in already limited assistance would hamper efforts to address increases in homelessness, evictions, and a lack of affordable housing and would likely increase the harm that people across the country face due to high rent costs. People left without vouchers — who are disproportionately Black, women, children, and people with disabilities — would be at high risk of eviction and potentially homelessness.

Therefore, in the short term, Congress should ensure a final 2024 appropriations legislation fully funds existing Housing Choice Vouchers by providing a significant increase over 2023 funding levels. CBPP estimates that the cost to retain existing vouchers is about \$2.3 billion above 2023 levels, assuming that part of the shortfall is covered using housing agencies' reserves. The 2024 funding bills passed by the House Appropriations Committee and the Senate increase funding, but not by enough to cover the cost of all existing vouchers.

Congress should also adequately fund other rental assistance programs, such as public housing, as well as Homeless Assistance Grants, which help people connect with emergency shelters and the services they need to obtain and maintain stable housing. These programs are all critical pieces of reducing the harms that come from housing instability.

Going forward, simply maintaining current levels of assistance won't address unmet need. Ensuring everyone has stable housing requires a level of investment and commitment that's better suited for mandatory funding that adjusts as need rises. Any rental assistance program that guarantees assistance to every person with a low income who needs it would have to be mandatory, rather than funded through annual discretionary appropriations, to ensure that benefits can be provided to all eligible households, similar to other mandatory programs like Medicaid and Social Security. This would ensure that enough funding is available to cover the cost of this assistance (which may be higher or lower than policymakers can project in advance, due to unpredictable factors such as market rents, family incomes, and the share of eligible households who participate).

Assuming phasing in such a program would be necessary, it should be developed using an income-based (rather than population-based) approach. An income-based expansion strategy that guarantees rental assistance first to people with the lowest incomes would ensure that people with the greatest needs are prioritized and would be the most equitable approach. It would also benefit from broad support among a variety of renter advocates and housing stakeholders because a wide range of groups of people at greatest risk of housing instability would benefit, including people of color, veterans, people experiencing homelessness, young adults, families with children, people with disabilities, and older adults.

Our current approach to addressing homelessness of pairing rental assistance with supportive services, is sound and decreased homelessness between 2007 and 2016. But homelessness started rising again in 2017 as more people were forced into homelessness each year due to the lack of deeply affordable housing.³²

Population-based strategies to address homelessness while coping with constrained resources has negatively impacted progress. As homelessness began to rise in 2017, policymakers began to rely more heavily on interventions targeted to particular subgroups, like veterans, older adults, or children exiting foster care, as a way to cope with limited resources. These interventions helped those reached, but they often left behind groups more heavily affected by homelessness.

Notably, racial and ethnic demographics of various subgroups may not match the overall racial and ethnic makeup of people experiencing housing insecurity and homelessness, as seen with veterans and older adults experiencing homelessness.³³ For example, these efforts did little to address the substantial over-representation of Black people among the unhoused population. As we move ahead with efforts to expand rental assistance, we should craft efforts that target new resources to people based on their income. Doing so will make sure that those most in need get help.

Policy makers should also seek to improve rental assistance to make it easier for families to use it to rent housing of their choice. This should include reforms to the existing voucher program, such as streamlining housing quality inspections and allowing subsidy funds to be used for security deposits. In addition, direct rental assistance — which is provided directly to tenants rather than through landlords — should be tested both through privately funded local pilots (as HUD has proposed) and a national demonstration.³⁴

Increase and Streamline Funding for New Affordable Housing

Many parts of the country face serious housing shortages, estimated at a total of 3.8 million units by a 2021 Freddie Mac study,³⁵ that drive up home prices and rents and limit the housing options available to families and individuals. In allocating new resources and implementing policies to make funding streams align more easily with each other and the Low Income Housing Tax Credit (LIHTC), policy makers should prioritize investments in programs that benefit the lowest-income people and other underserved groups, including the National Housing Trust Fund, Public Housing Operating and Capital Fund, and tribal housing programs. In addition to expanding LIHTC, policy makers should continue to promote ways to reform LIHTC to encourage states and developers to make rents affordable to people with incomes well below the program's eligibility limit.

Fair Housing and Tenant Protections

Our country's history of discriminatory housing policy is long and harmful housing discrimination is still a problem today. This is why ensuring renters have robust, enforceable rights against discrimination, coercion, and abuse is a critical pillar of addressing the affordable housing crisis. This includes funding for education, enforcement, and testing to ensure owners and other actors are abiding by the Fair Housing Act of 1968, which prohibits discrimination based on race, color, sex (including gender identity and sexual orientation), disability, national origin, religion, and familial status.

Another key aspect is implementation of the Affirmatively Furthering Fair Housing (AFFH) rule that charges HUD grantees with actively removing barriers to housing choice, overcoming patterns of segregation, and creating inclusive communities. Such proactive and defensive measures should be combined with broader federal, state, and local protections for all renters that help address imbalances of power created in the owner-tenant relationship, including increased access to legal representation during disputes such as eviction hearings.

Preserve Existing Affordable Housing

Governments at all levels and housing agencies must work together to preserve the existing affordable housing stock while also improving the properties and families' overall experience. This includes redeveloping existing public housing properties through HUD tools such as the Rental

Assistance Demonstration program; finding ways to incentivize Low Income Housing Tax Credit property owners to keep their developments affordable once their initial contract term ends; investing in redevelopment resources for properties that receive HUD assistance such as the Project-Based Rental Assistance program; and incentivizing landlords to rent to families with low incomes — especially families receiving Housing Choice Vouchers. The estimated cost to revitalize existing public housing units alone is at least \$70 billion.³⁶ Even more is needed to maintain the entire existing affordable housing stock.

¹ Peyton Whitney, “More Than 42 Million US Households Were Cost Burdened in 2022,” Joint Center for Housing Studies of Harvard University, January 19, 2024, <https://www.jchs.harvard.edu/blog/more-42-million-us-households-were-cost-burdened-2022>.

² Tanya de Sousa *et al.*, “The 2023 Annual Homelessness Assessment Report (AHAR) to Congress: Part 1: Point-in-Time Estimates of Homelessness,” prepared by Abt Associates for U.S. Department of Housing and Urban Development, December 2023, <https://www.huduser.gov/portal/sites/default/files/pdf/2023-AHAR-Part-1.pdf>.

³ Chuck Marr, “Rising Food and Energy Prices Underscore the Urgency of Acting on the Child Tax Credit,” CBPP, March 28, 2022, <https://www.cbpp.org/blog/rising-food-and-energy-prices-underscore-the-urgency-of-acting-on-the-child-tax-credit>.

⁴ Kevin Hardy, “Who’s going to work there?: Lawmakers grapple with labor shortages,” Route Fifty, August 23, 2023, <https://www.route-fifty.com/workforce/2023/08/whos-going-work-there-lawmakers-grapple-labor-shortages/389657/>.

⁵ Paul Emrath, Ph.D., “National Impact of Home Building and Remodeling: Updated Estimates,” National Association of Home Builders, April 1, 2020, <https://www.nahb.org/-/media/76398f7e13c547fda99ad5fd35da695c.ashx>; Paul Emrath, Ph.D., “How Home Building Can Lead a Recovery by Generating Jobs,” National Association of Home Builders, April 2, 2020, <https://eyeonhousing.org/2020/04/how-home-building-can-lead-a-recovery-by-generating-jobs/>.

⁶ Emrath, “How Home Building Can Lead a Recovery by Generating Jobs.”

⁷ CBPP analysis of 2021 1-year American Community Survey (ACS) data.

⁸ Institute of Real Estate Management, Building Owners and Managers Association, and National Apartment Association, “Income Expense IQ: 2021,” accessed December 2023.

⁹ Joint Center for Housing Studies, “America’s Rental Housing,” Harvard University, 2024, <https://www.jchs.harvard.edu/americas-rental-housing-2024>.

¹⁰ National Multifamily Housing Council, “NMHC’s View on Headline Inflation Rises while Core Inflation Continues to Moderate,” January 11, 2024, <https://www.nmhc.org/news/research-corner/2024/nmhcs-view-headline-inflation-rises-while-core-inflation-continues-to-moderate/>.

¹¹ Andrew Aurand *et al.*, “Out of Reach: The High Cost of Housing,” National Low Income Housing Coalition, 2023, https://nlihc.org/sites/default/files/2023_OOR.pdf.

¹² TAC, “Priced Out: The Housing Crisis for People with Disabilities,” 2023, <https://www.tacinc.org/resources/priced-out/>.

¹³ Joint Center for Housing Studies, “America’s Rental Housing,” *op. cit.*

¹⁴ CBPP analysis of 2017-2021 ACS microdata.

¹⁵ Graetz *et al.*, “A comprehensive demographic profile of the US evicted population,” Proceedings of the National Academy of Sciences, 2023, <https://www.pnas.org/doi/10.1073/pnas.2305860120>.

¹⁶ de Sousa *et al.*, *op. cit.*

¹⁷ In 2023, Native Hawaiians or Pacific Islanders made up 0.2 percent of the U.S. population but 1.6 percent of unhoused people; American Indian, Alaska Native, or Indigenous people made up 0.8 percent of the U.S. population but 3.5 percent of unhoused people; Black people made up almost 13 percent of the U.S. population but 37 percent of unhoused people; and Latine people made up 19 percent of the U.S. population but 28 percent of unhoused people. de Sousa *et al.*, *op. cit.* U.S. population shares are from 2018-2022 ACS, Table B03002. Latine category includes people of any race that identify as Latine; all race categories include both Latine and non-Latine people that identify as that race.

¹⁸ Megan Henry *et al.*, “2021 Annual Homelessness Assessment Report (AHAR) to Congress. Part 2: Estimates of Homelessness in the United States,” U.S. Department of Housing and Urban Development, July 2023, <https://www.huduser.gov/portal/sites/default/files/pdf/2021-AHAR-Part-2.pdf>.

¹⁹ de Sousa *et al.*, *op. cit.*

²⁰ Will Fischer, Sonya Acosta, and Anna Bailey, “An Agenda for the Future of Public Housing,” CBPP, March 11, 2021, <https://www.cbpp.org/sites/default/files/3-11-21hous.pdf>.

²¹ Will Fischer, Douglas Rice, and Alicia Mazzara, “Research Shows Rental Assistance Reduces Hardship and Provides Platform to Expand Opportunity for Low-Income Families,” CBPP, December 5, 2019, <https://www.cbpp.org/research/housing/research-shows-rental-assistance-reduces-hardship-and-provides-platform-to-expand>.

²² Alicia Mazzara, “Expanding Housing Vouchers Would Cut Poverty and Reduce Racial Disparities,” CBPP, May 11, 2021, <https://www.cbpp.org/blog/expanding-housing-vouchers-would-cut-poverty-and-reduce-racial-disparities>.

²³ Erik Gartland, “Funding Limitations Create Widespread Unmet Need for Rental Assistance,” CBPP, February 15, 2022, <https://www.cbpp.org/research/housing/funding-limitations-create-widespread-unmet-need-for-rental-assistance>.

²⁴ de Sousa *et al.*, *op. cit.*; Peter Hepburn *et al.*, “COVID-era policies cut eviction filings by more than half,” The Eviction Lab, May 3, 2023, <https://evictionlab.org/covid-era-policies-cut-eviction-filings-by-more-than-half/>.

²⁵ Peter Hepburn *et al.*, “Preliminary Analysis: Eviction Filing Patterns in 2021,” The Eviction Lab, March 28, 2022, <https://evictionlab.org/us-eviction-filing-patterns-2021/>.

²⁶ Camila Vallejo, Jacob Haas, and Peter Hepburn, “Preliminary Analysis: Eviction Filing Patterns in 2022,” The Eviction Lab, March 9, 2023, <https://evictionlab.org/ets-report-2022/>.

²⁷ Office of Evaluation Services, “Equity in the distribution of the Emergency Rental Assistance Program: A descriptive study of equity in the first-ever nationwide eviction prevention program,” General Services Administration, 2022, <https://oes.gsa.gov/projects/era-equity/>.

²⁸ Latine recipients were about proportionate and Asian renters were underrepresented compared to their share of the renter population eligible for ERA.

²⁹ Matthew Desmond, “Poor Black Women Are Evicted at Alarming Rates, Setting Off a Chain of Hardship,” MacArthur Foundation, March 2014, https://www.macfound.org/media/files/hhm_research_brief_-_poor_black_women_are_evicted_at_alarming_rates.pdf; Nick Graetz *et al.*, “A comprehensive demographic profile of the US evicted population,” Proceedings of the National Academy of Sciences, October 2, 2023, <https://doi.org/10.1073/pnas.2305860120>.

³⁰ U.S. Department of Housing and Urban Development, “FACT SHEET: Update on the American Rescue Plan’s Emergency Housing Voucher Program” July 12, 2022, <https://www.hud.gov/sites/dfiles/PA/documents/FactSheetEHVProgress.pdf>.

³¹ CBPP, “76% of Low-Income Renters Needing Federal Rental Assistance Don’t Receive It,” 2022, <https://www.cbpp.org/research/housing/three-out-of-four-low-income-at-risk-renters-do-not-receive-federal-rental-assistance>.

³² An average of 908,530 people entered homelessness each year between 2017 and 2020, while only an average of 900,895 exited, according to HUD data. United States Interagency Council on Homelessness, “All In: The Federal

Strategic Plan to Prevent and End Homelessness,” December 2022,
https://www.usich.gov/sites/default/files/document/All_In.pdf.

³³ U.S. Department of Housing and Urban Development and U.S. Department of Veterans Affairs, “Veteran Homelessness: A Supplemental Report to the 2009 Annual Assessment Report to Congress,” December 2010, <https://www.hudexchange.info/resource/1252/veteran-homelessness-a-supplemental-report-to-the-2009-ahar/>; de Sousa *et al.*, *op. cit.*

³⁴ Will Fischer, “Direct Rental Assistance Should Be Tested Through Local Pilots and a National Demonstration,” CBPP, January 22, 2024, <https://www.cbpp.org/blog/direct-rental-assistance-should-be-tested-through-local-pilots-and-a-national-demonstration>.

³⁵ Freddie Mac, “Housing Supply: A Growing Deficit,” May 7, 2021,
<https://www.freddiemac.com/research/insight/20210507-housing-supply>.

³⁶ Fischer, Acosta, and Bailey.

Testimony on
“A Blueprint for Prosperity: Expanding Housing Affordability”
Before the Senate Budget Committee
by Carol Ventura, Executive Director RIHousing
January 31, 2024

Mr. Chairman, Ranking Member Grassley, and members of the Committee, thank you for this opportunity to testify on the serious housing affordability challenges facing our country.

I am Carol Ventura, Executive Director of RIHousing, the Housing Finance Agency (HFA) for the State of Rhode Island. HFAs are state-chartered, mission-driven agencies that address the full spectrum of affordable housing need, from homelessness to homeownership. In Rhode Island, we provide financing and counseling to help low- and moderate-income households buy and keep a home, provide rental assistance to low-income tenants, finance the development and preservation of affordable housing and service our mortgage portfolio, among other important functions. Last year RIHousing celebrated an important milestone, our 50th anniversary. Over the past 50 years RIHousing has provided \$8 billion in mortgage financing, assisted 85,000 first time homebuyers, and financed the development or preservation of over 24,000 affordable units.

Housing Affordability Challenges Facing Rhode Island

Like many states across the country, Rhode Island is facing a critical housing shortage which has contributed to significant increases in housing prices. The state has simply not produced enough housing to meet the needs of its residents at the price points that would be affordable to them. Over the past decade, Rhode Island's rate of permitting has ranked last in the nation at 10.8 total housing permits issued per 1,000 residents¹. Residential permitting in Rhode Island in 2020 was 1/5 of what it was in 1986 with both single-family and multi-family housing permits seeing dramatic declines².

As housing production has slowed, vacancy rates have decreased. From 2018 to 2021, the number of vacant housing units in Rhode Island decreased by nearly 30% as the number of households grew faster than the number of housing units.³ The vacancy rate in Rhode Island in the fourth quarter of 2023 was 3.4% which is better than the 2.51% we saw in 2021⁴, but still extremely tight. We are seeing similar tightness in the inventory of homes for sale. In November of 2023 Rhode Island had a 1.9 month supply of homes for sale, known as housing inventory. That's one-third of the six-month inventory required for a balanced housing market⁵.

¹ RI Foundation, “Housing Supply and Homelessness in Rhode Island,” April, 2023, pg 41.

² RI Foundation, “Housing Supply and Homelessness in Rhode Island,” April, 2023, pg 43.

³ RI Foundation, “Housing Supply and Homelessness in Rhode Island,” April, 2023.

⁴ CoStar MarketTrends, retrieved January 16, 2024

⁵ RI Association of Realtors, November 2023, <https://www.rhodeislandliving.com/PressReleases/Archives/2023/December/Infographics/Infographic-November-2023.pdf>.

Not surprisingly, as the supply of available housing has decreased, housing costs have increased significantly. The median price of a single-family home in Rhode Island was \$425,000 in 2023, up 49% from 2019⁶. The average asking rent in Rhode Island in 2023 was \$1,846, up 23% from 2019. Rhode Island is now regularly being identified as a “hot” housing market with Realtor.com recently ranking Rhode Island tenth on its list of hottest housing markets in the United States⁷ and Zillow predicting that Providence will be the fifth-hottest housing market in the country in 2024, just below Buffalo, New York; Cincinnati, Ohio; Columbus, Ohio and Indianapolis, Indiana⁸.

As housing costs have risen, more and more Rhode Islanders are struggling to access and sustain housing they can afford. According to HousingWorksRI, in 2022, a household earning the median income in Rhode Island could afford the median priced single-family home in only one community⁹. Renters fared no better with a household earning the state’s median renter household income of \$41,277 able to afford the average 2-bedroom rent in only one Rhode Island town¹⁰. Across Rhode Island, about 150,000 households (1/3 of the population), including about 78,000 home-owner households, are housing cost-burdened (paying more than 30% of their income for housing costs)¹¹.

We are also seeing significant increases in the number of homeless and housing insecure Rhode Islanders as these market dynamics coincide with the loss of federal COVID-related income and housing supports that I will discuss in more detail below. Rhode Island had the 17th highest per capita homelessness count in the country in 2022. Homelessness in Rhode Island has grown about 43% since 2020, the 6th highest growth rate in the country¹². Evictions are also on the rise with the number of eviction judgements in Rhode Island almost doubling over the past three years going from 2,730 in 2021 to 5,406 in 2023, approaching the pre-COVID average number of judgements.

At RIHousing we are seeing the impacts of these market conditions on the customers we serve. As housing prices have increased along with mortgage interest rates, the average income of our homebuyers and the size of their mortgages have also risen. The average income of our homebuyers in 2023 was \$92,000 up 44% from 2019. Over that same time frame, our average loan amount increased 55% to \$344,000. Lower income borrowers, particularly first-time home buyers who are unable to tap the equity from the sale of another property, are really struggling to enter this housing market.

How Federal Resources Are Helping Address Housing Affordability Challenges

The federal government has played an essential role in helping Rhode Island address these serious housing affordability challenges. Most recently in response to the global COVID-19 pandemic, Congress approved billions of dollars in relief programs designed to keep vulnerable homeowners

⁶ RI Realtors Association

⁷ Market Hotness Index, Realtors.com, December 2023, <https://www.realtor.com/research/reports/hottest-markets/>

⁸ “Why Buffalo will be 2024’s Hottest Market,” Zillow.com, last modified January 4, 2024.

<https://www.zillow.com/research/2024-hottest-market-33566/>.

⁹ HousingWorksRI, “2023 Housing Fact Book,” pg 10.

¹⁰ HousingWorksRI, “2023 Housing Fact Book,” pg 11.

¹¹ RI Foundation, “Housing Supply and Homelessness in Rhode Island,” April, 2023, pg 29.

¹² RI Foundation, “Housing Supply and Homelessness in Rhode Island,” April, 2023, pg 105.

and renters safely housed during a public health crisis. RIHousing was proud to administer over \$279 million in Emergency Rental Assistance (ERA) and \$50 million through the Homeowner Assistance Fund. Through the ERA program we were able to provide rental assistance needed to keep over 34,000 households in their apartments. Those households were overwhelmingly very low-income with 89% earning less than 50% of Area Median Income (AMI) (\$46,100 for a family of three in most parts of the state) and 67% earning less than 30% of AMI (\$27,650 for a family of three in most parts of the state). Working with Rhode Island Legal Services, the Center for Justice and other community partners we were able to provide eviction prevention services to renters right in the courthouses. Tenants facing eviction received help submitting an application for emergency rental assistance as well as legal representation during the eviction proceedings. Eviction court judges worked with us and our partners to ensure that tenants were not evicted for non-payment if they had an active application for rental assistance. This program, combined with the federal eviction moratorium was extremely effective at preventing displacement of renters at the height of the pandemic, while ensuring that landlords received the payments they needed to pay their own mortgages and cover their operating costs. From 2020 to 2022 the number of eviction judgements in Rhode Island dropped 46% below the pre-COVID average (from 5600 to 3040)¹³.

The Homeowner Assistance Fund played a similarly important role for homeowners facing pandemic related financial hardships. To date, RIHousing has provided \$45 million in HAF-RI assistance to keep over 1,800 Rhode Island homeowners in their homes. Participating homeowners were also heavily low and moderate income with 44% earning less than 50% AMI and 80% earning less than 80% AMI (\$73,750 for a family of three in most parts of the state). Rhode Island homeowners also benefitted significantly from loss mitigation steps taken by FHA, Fannie Mae and Freddie Mac to put homeowners who fell behind on their mortgage payments during the pandemic back on track. Through these programs eligible homeowners were able to temporarily pause mortgage payments through forbearance programs, and homeowners in default were able to take advantage of a variety of new loss mitigation programs.

Federal investments made through the American Rescue Plan Act of 2021 (ARPA) are also playing an important role helping Rhode Island recover from the effects of the pandemic and address some of the underlying issues that have exacerbated our housing affordability challenges. Over the past two years Governor McKee and the leadership of the Rhode Island General Assembly have invested \$321.5 million of the state's \$1.13 billion allocation of State and Local Fiscal Recovery Funds (SLFRF) (28%) to fund housing and homeless programs. That is one of the highest proportions of state SLFRF allocations in the country dedicated to addressing these important issues. RIHousing is administering just over \$206 million of these resources, primarily to finance the development and preservation of affordable housing and to provide down payment assistance to first time homebuyers. The Department of Housing is administering the bulk of the remaining resources which are primarily focused on addressing the needs of homeless Rhode Islanders.

Of the funding being administered by RIHousing, \$30 million in SLFRF funding has been dedicated to providing first-time homebuyers with \$17,500 in downpayment assistance. At a time of rapidly increasing housing prices and rising interest rates, this assistance has made homeownership possible for almost 1,500 first-time homebuyers in Rhode Island, of which 51% were minority borrowers.

¹³ State of Rhode Island Judiciary, District Court Evictions Records, January 1, 2024.

\$140 million in SLFRF funding has been dedicated to housing development and an additional \$35 million is being used to purchase properties for future development as affordable housing and financing predevelopment work for proposed affordable developments. Together these resources are creating and moving forward the implementation of a new pipeline of affordable housing in the state. To date, over \$100 million has been committed for the development or preservation of over 1,700 residential units of which 1,406 will be affordable. Another \$32 million is supporting site acquisition and predevelopment activities for 62 proposed affordable developments.

These new development resources have been particularly impactful because they have allowed us to better leverage other resources, magnifying the impact of that investment. The most important affordable housing financing tool we have is the federal Low Income Housing Tax Credit (LIHTC). Like every state, Rhode Island receives a limited amount of 9% Housing Credits which are extremely competitive and can generally finance about three affordable developments per year. Just over \$3 million in 9% Housing Credits can leverage over \$28 million in private equity investment in these developments. We can also access 4% Housing Credits generating through tax exempt bond financing. 4% Credits offer a shallower subsidy, so developments utilizing this resource generally require significantly more gap financing which has been a real barrier to maximizing the utilization of bonds and 4% credits in our state. With these new SLFRF resources we have been able to significantly expand utilization of the 4% Housing Credit in particular, and to utilize it for new housing production whereas historically this financing has been largely limited to financing the preservation of existing affordable housing. From 2015-2022 we were closing approximately 6 LIHTC financed developments per year. Last year we gave preliminary approval to 15 LIHTC financed developments. I want to note that these investments were only possible as a result of the guidance provided by the U.S. Treasury Department on how ARPA funding could be utilized in LIHTC transactions, guidance that was heavily influenced by the LIFELINE Act that was introduced in 2022 and cosponsored by several members of the Committee. We appreciate your support for that important legislation.

In addition to the LIHTC program, the federal government's ongoing investments in more traditional affordable housing development financing programs like HOME, the National Housing Trust Fund (NHT) and the Capital Magnet Fund have been critical. Each of these programs play a role in filling financing gaps, particularly for projects serving the lowest income households. ARPA also provided \$5 billion for a new federal homelessness assistance and supportive services program: HOME for Homelessness Assistance and Supportive Services (HOME-ARP). RHHousing is administering \$13.5 million in HOME-ARP funds and has already allocated \$2 million to support the development of a new 72-unit affordable development which will include 16 units affordable to households earning 30% of AMI who are homeless or at risk of homelessness.

Equally important as development financing has been the essential role the federal government has played bridging the gap between the cost to operate housing and the rent that low-income and very low-income households can afford to pay. The Housing Choice Voucher Program (HCVP) and other rental assistance voucher programs along with operating support programs like Project Based Section 8 have made it possible for our most vulnerable renters to access housing they can afford. RHHousing administers about 1,500 HCVP vouchers annually as well as 117 Emergency Housing Vouchers funded through ARPA. We have also recently been awarded \$350,000 for 38 Family

Unification Program (FUP) Vouchers to subsidize housing costs for families and youth involved in the foster care system, and have received preliminary approval from HUD for 25 HUD-Veterans Affairs Supportive Housing (VASH) vouchers targeted to homeless veterans. It is simply not possible for the market to meet the housing needs of our lowest-income households, and even affordable developments are unable to serve households earning less than 30%AMI without operating support or rental assistance vouchers. These programs are providing that critical subsidy.

Federal resources are also playing an important role in helping address the growing number of Rhode Islanders who are homeless or at risk of homelessness due to the extraordinary increases in housing costs we are seeing, combined with a severe housing shortage. Over \$69 million in SLFRF funds have been specifically targeted to meeting the needs of homeless Rhode Islanders by funding services and supports, emergency shelter and financing the development of permanent supportive housing. These resources are being administered by the state's Department of Housing.

Need for Increased Federal Investment and Support

The investments that Congress has made in housing and homeless programs have been vital to helping states increase the supply of affordable housing and increasing access to affordable housing for our most vulnerable populations. But the continued escalation in housing prices and the housing affordability crisis facing a growing number of renters and homeowners is proof that more needs to be done. There are several steps in particular that the federal government could take to address housing affordability challenges.

1. **Increase appropriations for housing production and preservation.** Affordable housing development financing programs like HOME, NHT and the Capital Magnet Fund have never been more important. Inflation, supply chain issues, increasing land costs and labor shortages have all contributed to significant increases in the cost of housing development. In just the past 4 years the cost to develop affordable housing in Rhode Island has increased by about 30%. We are seeing many projects that received financing in earlier funding cycles returning to close financing gaps caused by increased costs. That means we need significantly more subsidy to produce the same number of affordable units, and we need to be producing more affordable units. Meanwhile, federal investments have not been keeping pace with increased costs. From FY2010-FY2021 HOME funding decreased by 42% in inflation adjusted dollars. Rhode Island's allocation decreased by 49%¹⁴. We cannot increase development of affordable housing without an increased federal investment through programs like these and through the LIHTC which is discussed in more detail below.
2. **Increase appropriations for rental assistance vouchers and operating support for affordable housing.** Like the cost of developing housing, the cost of renting and operating housing has risen significantly in recent years. At a minimum Congress must provide adequate funding to support existing project and tenant-based rental assistance contracts. However, to make headway in reducing the number of housing cost burdened extremely low-income households, increased investment is needed in these critical programs.

¹⁴ "2023 National Population Tables: Main Series," U.S. Census Bureau.
<https://www.census.gov/data/tables/2023/demo/popproj/2023-summary-tables.html>.

3. **Restore funding for the Section 202 and Section 811 programs.** These two programs have historically played an important role financing the production of affordable housing serving very low-income seniors (202 program) and persons with disabilities (811 program). Because of the very low incomes and special needs of the populations served by this housing, the programs included both capital funding and long-term operating support for assisted developments. Funding for both programs has declined significantly over time. The number of Americans ages 65 and older is projected to increase from 58 million in 2022 to 82 million by 2050 (a 47% increase). The Section 202 and Section 811 programs offer a proven model for meeting the housing needs of these populations and funding for these programs should be restored.
4. **Pass the Affordable Housing Credit Improvement Act (AHCIA).** One of the most important steps Congress can take to increase the supply of affordable housing is to pass the AHCIA. The LIHTC program is already the most powerful tool we have to produce and preserve affordable rental housing. This bill builds on that strong foundation by significantly increasing Housing Credit allocation authority for 9% Housing Credits, reducing the amount of tax-exempt bond funding required to access 4% Housing Credits from 50% of the development cost to 25% and making other important improvements to the program. Up to 4,500 additional affordable homes could be financed in Rhode Island by the primary unit financing provisions in the AHCIA and we strongly support passage of this important legislation¹⁵. More immediately, I know Congress is currently considering a tax package that includes several important elements of the AHCIA. RIHousing strongly supports these provisions and urges Congress to act quickly to adopt this package.
5. **Permanently extend the Federal Financing Bank (FFB) HUD Risk-Sharing Initiative.** RIHousing relies on a variety of federal tools to finance the production and preservation of affordable apartments. One of those tools is HUD's Risk-Sharing program which provides mortgage insurance for affordable housing developments financed by Housing Finance Agencies like RIHousing. In 2014, a new tool was made available that combined HUD's Risk Sharing mortgage insurance with low-cost financing provided through Treasury's Federal Financing Bank (FFB). That program lapsed in 2018. The Administration temporarily resumed the initiative in 2021 with the goal of transitioning over to a permanent financing program through Ginnie Mae by 2026. RIHousing has utilized over \$319 million through the FFB Risk-Sharing Initiative to finance the production or preservation of over 3,200 affordable apartments. This program has been a very effective tool in Rhode Island and in other states that are utilizing the program, and we urge Congress to make it permanent.

Thank you again for dedicating this hearing to the important housing affordability challenges facing our country. I am honored to have had this opportunity to testify before the Committee and to share RIHousing's experiences.

¹⁵ "Rhode Island Housing Credit State Fact Sheet," ACTION Campaign, accessed January 23, 2024, , <https://rentalhousingaction.org/rhode-island/>



WRITTEN STATEMENT FOR THE RECORD

**HON. KEVIN BOYCE
PRESIDENT
COUNTY COMMISSIONER
FRANKLIN COUNTY, OHIO
IN COLLABORATION WITH THE NATIONAL ASSOCIATION OF COUNTIES**



**HEARING ENTITLED A BLUEPRINT FOR PROSPERITY: EXPANDING HOUSING AFFORDABILITY
BEFORE THE U.S SENATE COMMITTEE ON THE BUDGET**

January 31, 2024

INTRODUCTION

Chair Whitehouse, Ranking Member Grassley, and distinguished members of the Committee, thank you for the opportunity to testify today on the state of our nation's housing crisis, the local approach counties are taking to address it and the critical role the intergovernmental partnership plays in crafting comprehensive solutions to ease the financial burden placed on our residents due to the rising cost of housing.

My name is Kevin Boyce, and I serve as the President of the Board of County Commissioners in Franklin County, Ohio. Additionally, I have the honor of serving in leadership and advocacy roles for the National Association of Counties (NACo), including as Co-Chair of the recently concluded Housing Task Force and Vice Chair of the Telecommunications and Technology Policy Steering Committee.

ABOUT AMERICA'S COUNTIES

Counties are one of America's original forms of government, dating back to 1634 when the first county governments (shires) were established in Virginia. Counties are highly diverse, not only in my home state of Ohio, but across the nation, and vary immensely in natural resources, social and political systems, cultural, economic and structural circumstances, public health and environmental responsibilities. Counties range in area from 26 square miles (Arlington County, Virginia) to 87,860 square miles (North Slope Borough, Alaska). The population of counties vary just as widely from Loving County, Texas, with just under 100 residents to Los Angeles County, California, which is home to roughly ten million people. Of the nation's 3,069 counties, approximately 70 percent are considered "rural," with populations less than 50,000, with 50 percent of those having populations below 25,000. At the same time, there are more than 120 major urban counties, including my home of Franklin County, Ohio, which collectively house, and provide essential services to, more than 130 million people.

Many of our responsibilities are mandated by states and the federal government. Although county responsibilities differ widely, most states grant counties significant authorities. These authorities include construction and maintenance of roads, bridges and other infrastructure; assessment of property taxes; record keeping; running elections; and overseeing jails, court systems and public hospitals. Counties are also responsible for child welfare, consumer protection, economic development, employment/workforce training, land use planning, zoning and environmental protection.

Ensuring that housing remains accessible and affordable to all residents is also a critical component of these responsibilities. Though the specifics look different in each county, day-to-day, counties work tirelessly to increase housing supply and affordability using various tools, including; tax policies, building permits and code enforcement, land use and zoning, down payment and closing cost assistance, infrastructure development, and community planning. While counties continue to efficiently and effectively utilize these tools to address the housing crisis, we must continue to receive the support of federal programs, policies and funding to sustain our efforts.

ABOUT FRANKLIN COUNTY, OHIO

Franklin County, Ohio is the largest county in the state of Ohio with over 1.3 million residents. By 2050, the Central Ohio region is expected to grow by more than a million residents, with an estimated regional population increasing to 3.15 million. Of that, Franklin County is expected to absorb at least half of the regional growth, welcoming more than twice as many newcomers as any other nearby county. We, like many other large, growing regions, have a shortage in the available housing stock. According to a report commissioned by the Building Industry Association of Central Ohio, housing permitting must increase approximately two-fold from recent trends to meet the projected housing need of over 100,000 new

housing units in just the next decade. At least 270,000 additional units are needed by 2050. From 2010-2019: 58 percent of all new units built were multi-family. Central Ohio needs to build 11,000 houses annually to keep pace with growth. We are growing faster than any other region in the state, but at an estimated 0.89 percent annually, it is a much more manageable rate than metros, such as Austin, Texas, or Boise, Idaho, which have been growing at twice the rate of Central Ohio.

In 2019, the Franklin County Board of Commissioners approved the Affordable Housing Magnet Fund. This increased the permissive real property transfer tax by a rate of ten cents (\$0.10) per hundred dollars of value. These additional general fund revenues were dedicated to the purpose of encouraging the development of new affordable housing units throughout Franklin County by providing gap financing to developers seeking the 4 percent Low Income Housing Tax Credit. To date, 11 projects have been approved and funded by the Franklin County Board of Commissioners, totaling 1,239 units and over \$13 million committed by the county.

The arrival of federal dollars in response to the coronavirus pandemic has been transformational in Franklin County. For example, \$600,000 of American Rescue Plan funds supported a magnet fund project constructed by the local housing authority. Additionally, Franklin County has received \$89 million through the Emergency Rental Assistance Program in two different tranches plus a voluntary reallocation of unspent funds from the State of Ohio and an additional reallocation of unspent funds from the Department of Treasury. Through the end of 2023, over \$62 million has been expended by the Franklin County Board of Commissioners to the Franklin County Jobs and Family Services Prevention, Retention, and Contingency Program, the Columbus Urban League and Impact Community Action agency.

Franklin County has been addressing community conditions such as homelessness and evictions, that existed before the pandemic and have since been exacerbated. In fiscal year (FY) 2023, the Community Shelter Board, the local lead response agency on homelessness, reported serving 7,865 people who were provided with safe emergency shelter while experiencing homelessness, including 1,910 children and 196 expectant mothers.

THE ACUTE NEED FOR MODERATELY-PRICED, QUALITY HOUSING IN ALL COUNTIES

For a growing number of Americans, the cost of housing is crowding out the rest of their household budget. That's forcing many families into living situations that affect their health and well-being, the length of their commutes and their chance to build generational wealth or to contribute to a vibrant community where they feel like they have a stake.

In 18 percent of counties, households currently spend more than 3.5 times their annual income to afford a typical home. Nearly a quarter (23 percent) of households that occupy rental units are severely cost-burdened, spending more than half of their annual income on rent. There is a shortage of more than 3.8 million homes across the country, according to Freddie Mac, and it will take more than 20 years to close the housing unit gap despite the recent acceleration in development, according to the National Association of Realtors.

These statistics lend context to a problem that counties know all too well: housing affordability is increasingly out of reach for residents. In Valley County, Idaho, a small resort community outside of Boise, the median home price is \$650,000, while the median household income is only \$75,000 – primarily driven by the influx of wealthy households. First responders, service-sector and healthcare workers, teachers and other integral community members face the choice of commuting several hours

or living in homes not intended for long-term habitation like Recreational Vehicles (RVs). For children from the community, there is virtually no path that leads to raising a family in the county where they've grown up.

In Franklin County, which is home to the capital city of Columbus, four out of every ten renters are cost-burdened, spending more than 30 percent of their annual income on housing. The lingering impacts of decades of unjust housing policies like redlining, access to financial institutions and affordable financing still cloud the pathways to homeownership for many black and brown residents. In addition to the historic exclusion some community members faced, housing is becoming increasingly expensive due to supply not keeping pace with the rapidly growing population. Since 2010, the population within the county has grown 14 percent to over 1.3 million, while total housing units in the county have increased only ten percent, further widening the gap.

Stories like these are not the exception but a commonality across many counties in this country. Housing fulfills the basic human need for shelter and is the foundation for better health, consistent education, a stronger workforce, improved financial wellness, and lowered demand for the public sector safety net.

THE PERFECT STORM FOR A HOUSING AFFORDABILITY CRISIS

Many colliding factors contribute to the current housing affordability crisis. Housing costs have been steadily rising, often outpacing inflation or wage growth. Roughly half (46 percent) of renters and over one in three homeowners (35.1 percent) were cost-burdened in 2021, including 23 percent of renters and 9 percent of homeowners who were severely-cost burdened, spending at least half of their household income on housing throughout the year.¹ Compounding these burdens, the median price of a home surged by more than \$107,000 between Q1 2020 and Q1 2023.² Furthermore, rents have increased by 16 percent between January 2020 and March 2023, with additional rent increases expected in the coming months.³ With wage increases struggling to keep pace for many in the workforce over the last several decades, the increase in the costs of housing is straining renters and homeowners alike.

Not only are Americans facing higher housing costs, but the stock available for renting or owning is also increasingly limited and, too often, in disrepair. Nearly 80 percent of homeowners who currently have a mortgage, hold an interest rate below five percent, keeping housing inventory down around record lows.⁴ This has led to existing-home sales declining 19 percent to 4.09 million in 2023, according to the National Association of Realtors, compared to the year prior. That number exceeds the lows of the subprime mortgage crisis and is the lowest full-year level in 30 years. Moreover, the number of available rental units has been cut nearly in half over the past decade (10.6 percent in Q1 2010 vs. 6.6 percent at in Q3 2023).⁵

For the available homes, the Philadelphia Federal Reserve concluded roughly one-third had significant non-cosmetic deficiencies in 2022, conveying an estimated price tag of \$149.3 billion for repairs.⁶ Increased repair costs are, in part, a byproduct of older housing stock. The Median age of homes increased to 43 years old in 2021.⁷ Plus, elevated construction costs (materials and labor) during the pandemic exacerbated the challenge.

As the population demographics continue to shift, approximately 40 percent of housing stock lacks accessibility, like an entry-level bedroom and bathroom necessary to serve older generations and those with reduced mobility.⁸ Moreover, the increasing frequency of natural disasters significantly threatens

the existing housing stock. Throughout 2022, there were 18 unique billion-dollar natural disasters; when combined with the past seven years, the total price tag exceeds \$1 trillion, constituting more than one-third of the entire disaster cost over the past 42 years.⁹ Another direct consequence adversely impacted housing costs is the rising home insurance prices. According to a Policygenius Home Insurance Pricing Report, home insurance policy premiums rose by an average of 21 percent at renewal from May 2022 to May 2023, with the expectation that they will continue to rise given the increased frequency and fiscal impact of these disasters. Moreover, more than 39 million properties – 27 percent of the total US properties – are at risk of higher premiums or the loss of coverage.¹⁰ In addition to evolving population demographics, for many counties across the country, domestic migration is beginning to play an increasing role in their local affordability crisis, due to an acceleration by the pandemic and the rise of remote work.

Though housing has been a critical discussion for decades, the problem has grown in scope. During the pandemic, a sample of landlords reporting collection rates above 90 percent fell from 89 percent in 2019 to 62 percent in 2020.¹¹ Those experiencing particular hardship during the pandemic tended to be low-income or of Hispanic origin.¹² Additionally, as flexible work options become more mainstream anecdotes of individuals seeking a different environment to work from – in a lower cost-of-living area – have skyrocketed and, in some cases, are pricing locals out of their home communities.¹³

THE IMPACT OF HOUSING AFFORDABILITY ON COUNTY OPERATIONS

County governments are inextricably linked to affordable housing because of the role they play in housing. Most county governments collect property taxes and provide property assessments. They also often provide much of the regulatory framework around housing, from planning and zoning to administering building permits. Furthermore, county governments provide a range of health and human services on which homeless and low-income populations rely. Therefore, is a prime concern for counties.

From county budgets to the services that counties provide their residents, housing affordability has wide-ranging effects on county operations. When the prices of homes near job centers are too high for the workforce, residents end up commuting long distances each day for work, thereby wearing down county transportation infrastructure more quickly. Between 1990 and 2019, the average commute time in the U.S. increased by 19 percent, from 22.4 minutes to 27.6 minutes.¹⁴ This change is significant because county governments own and maintain 46 percent of America's public roads and over 38 percent of all bridges.¹⁵ The more use that roads and bridges receive, the more often counties need to maintain and repair them. In counties where housing costs are especially high, some of the workforce may even work in one county but live in a neighboring county where housing is more affordable.

Aside from county transportation infrastructure, high housing costs place pressure on county social services. A county without affordable housing for all levels of income can experience increased levels of homelessness, as residents with very low incomes are pushed out of their homes with no other housing options they can afford. Although not all low-income residents may be in danger of homelessness, as rents and property values increase, many may find themselves in an unstable housing situation, where the loss of a job, a medical emergency or even one missed paycheck can result in an eviction. Housing instability can lead to employment instability, when individuals struggle to keep a job under the stress of

a potential or an actual eviction.¹⁶ Housing instability impacts family health and educational outcomes for children, affecting county residents – and service delivery systems – over the long-term.¹⁷

Furthermore, housing affordability shapes county economies. In the short-term, when county governments invest in and promote the development of affordable homes, they generate jobs directly in the fields of construction, architecture and engineering, as well as indirectly in local restaurants, retail stores and other businesses once people move into the new homes. A study by the New York State Association for Affordable Housing (NYSAAH) found that between 2011 and 2015, affordable housing projects created 329,400 jobs and generated \$54.5 billion in new economic activity.¹⁸ In the long-run, affordable housing has even greater effects on a county's economy. Residents living in housing they can afford will be more stable in their employment, counties will be better able to attract a more talented workforce and businesses will be more likely to locate in areas with housing that is affordable for their employees. Affordable housing, therefore, has direct economic benefits on counties.

THE COUNTY ROLE IN HOUSING

Housing affordability is complex, multifaceted and interdependent. So too are county authorities and resources on housing local housing policy, financing and regulation. Because of the varied authorities, each county's approach to addressing the challenge is different, reflecting their unique needs, values and priorities, while considering the varied relationships and resources available. Generally speaking, a county's role in housing falls under one of these five "pillars."

1. Land Use, Zoning, Infrastructure and Community Planning

The macro aspects of local housing policy are the foundation for generating affordability. In new and existing developments, improper or restrictive land use can drive up costs. Similarly, the total cost of new developments often depends largely on the value of the land and how much preparation must be performed to make the parcel ready for construction. Because zoning changes are quickly reflected in land prices, zoning and land use policies should be focused on ensuring that the right development opportunities exist rather than attempting to balance specific costs and benefits. Counties have a handful of levers to influence these macro aspects, including reviewing zoning and land use policies, understanding the landscape of existing housing stock, and helping to defray upfront infrastructure costs for new projects.

2. Regulations, Codes and Associated Fees

The micro-aspects of housing pertain to how each development or individual interacts with housing. Developing property for housing requires following a set of codes and regulations to ensure safety, and counties often issue permits and conduct code enforcement. Some developments require studies or carry other special fees associated with construction, while other local regulations may impact affordability tangentially, like insurance premiums.

3. Intergovernmental Nexus

Counties and the federal government work together to support local communities in addressing housing affordability. Federal funding – often through the U.S. Department of Housing and Urban Development (HUD) or U.S. Department of Agriculture's Rural Housing Service for rural counties – is used by counties to supplement local resources, administer housing programs, build infrastructure

that supports new development and assist low-income residents. Conversely, counties educate federal representatives on local priorities to ensure Congress and executive-branch agencies have the relevant information to decide on housing issues impacting counties. Housing is a complex public policy topic that requires input from all sectors and stakeholders, along with a strong intergovernmental framework for policy and funding coordination.

4. Community Engagement, Partnerships and Education

Much of the work required to increase housing stock depends on engagement with the community. Housing is a foundational element to community prosperity, contributing to health, economic mobility, safety and resilience. Sometimes conversations on housing can be limited to numbers and finances, but communicating the importance of housing as a critical component of the community's infrastructure can help to advance housing priorities, even when direct authority over issues like land use and zoning are limited or not within the county's purview. Public stakeholders are essential to reframing conversations on housing needs. Not only can counties partner with other governments and community organizations to advance housing, but local leaders can also serve as an educational body to inform residents.

5. Finance, Lending and County Tax Policy

Investment – often a blend of financing, lending and county tax policy – is required to successfully develop new housing, maintain existing housing stock, and navigate housing support systems. Property taxes are the primary driver of most county finances and can significantly affect land use. Additionally, some counties work with financial institutions or leverage federal programs to provide direct support to individuals or incentives for new developments. Looking holistically at county financing, tax and policy touchpoints can help to foster housing affordability. Like all things, housing is competing for an increasingly limited amount of capital. Local leaders can work to make housing projects more attractive through financial, tax and other policy and program tools.

It is also important to recognize that each policy or ecosystem pillar does not exist independently but are pieces of a whole. The land use and zoning plans in a community ultimately impact the county tax base and services; the partnerships established within a community can inform state and federal advocacy efforts; use of federal funds can reflect financing of new developments; and local regulations can have significant implications on community engagement. Recognizing this interconnection is important to understanding the levers and opportunities available to counties to foster affordability and quality.

NACO HOUSING TASK FORCE

In November 2022, then NACo President Denise Winfrey (Board Member, Will County, Ill.) launched the Housing Task Force, a group of 33 elected and professional county housing experts. The task force was initially charged with two goals: to elevate county-led solutions to address the housing affordability crisis confronting America's counties and, important to today's hearing, identify intergovernmental opportunities for partnership on housing issues.

The task force work began in November 2022, with an in-person convening to explore the county's role in housing. Led by co-chairs Sherry Maupin and myself, Kevin Boyce, Commissioners from Valley County, Idaho and Franklin County, Ohio, respectively, task force members engaged in discussion with experts from the Harvard Joint Center for Housing, the U.S. Department of Housing and Urban Development, and the Aspen Institute on county authority, challenges and solutions to housing affordability.

After a series of virtual gatherings, the task force met again in February 2023 during the NACo Legislative Conference in Washington, D.C., and explored these areas with in-depth conversations on homeownership, rental housing and technology solutions. The task force also participated in an open discussion with White House senior leadership on the federal-to-county nexus and areas for intergovernmental collaboration. Over the following months, the task force again met virtually with experts from around the country to discuss the financial, administrative and policy levers counties can employ to effect change.

During the final in-person meeting in May 2023 in Dallas County, Texas, task force members explored some of these solutions in action. From the task force work, a recommendation guide for local leaders seeking to advance housing affordability has been born. The framework is not intended to be an immediate fix, or silver bullet to the current crisis facing our nation, but to be a guide – a point of origin – for leaders seeking change.

Though county authority on housing is complex and varied, the task force guide aimed to be another tool in the toolbox from which local leaders can draw ideas, inspiration, projects and solutions that can be tailored to fit the unique needs of each community. Though the work of counties on advancing housing affordability is not done, the release of the recommendation framework marked a milestone in the county effort to build strong communities and ensure equitable access to safe, quality and reasonably priced housing for every resident in every county across the country.

POINTS FOR CONSIDERATION

Looking towards finding comprehensive policy solutions that effectively address the current housing crisis, the following portion of the testimony will provide you with ideas on how Congress can enhance current and future housing programs to ensure that we have the required tools to reduce the cost burdens facing homeowners and renters alike.

In collaboration with the National Association of Counties (NACo), I offer the following recommendations for your consideration:

- **Invest Additional Federal Resources to Adequately Support Housing Needs**
- **Modernize and Strengthen Current Federal Programs**
- **Provide More Direct to Local Government Funding Opportunities**
- **Simplify Programs and Reduce Burdensome Compliance Requirements on Local Governments**

Invest Additional Federal Resources to Adequately Support Housing Needs

Currently, it's estimated that the United States is 3.8 million units short of meeting the current housing demand, which is double the number from 2012.¹⁹ Conventional, federal government housing policy has

been dominated by demand-side interventions. For example, reducing a homeowner's tax bill through the mortgage interest deduction, or Federal Reserve purchases of mortgage bonds, are ways to help assist families with the ability to afford housing, but it doesn't directly address the root cause: pressure on the supply-side.

Conversely, in response to the increased costs correlated with the supply-side constraint, Congress has focused on housing assistance programs, like the Housing Choice Voucher Program and homelessness assistance, to help address the impact of the increased cost of housing for lower income Americans. Let me be clear, these are critical housing and assistance programs that counties ardently support and rely on, and who also require additional funding and modernization. But until policymakers address the supply shortfall, millions will continue to be priced out of the market and forced to rely on subsidized housing to survive.

In order to meet the moment, Congress must increase annual investments in programs designed to increase the housing supply. The current authorized funding levels for these programs - namely the HOME Investments Partnership program, Community Development Block Grant, Low-Income Housing Tax Credit, USDA Rural Housing programs, Housing Trust Fund, Capital Magnet Fund - do not accurately reflect the demonstrated need and demand for housing leadership and resources that exists across America's counties and regions. Through sustained investments in these programs, we would gradually see the growth in rents and home prices begin to moderate, allowing wages to catch up, making housing more accessible and affordable for all families.

Future costs incurred through increased investments in these programs pale in comparison to the negative economic impact associated with the continued failure to address the current supply-side shortfall. Currently, the shortage of affordable housing in major U.S. population centers costs our economy \$2 trillion each year in lower wages and productivity.²⁰ Families who have an inability to access affordable housing options are often times locked out of job opportunities that would increase their earnings, causing a direct slowdown in growth of our gross domestic product (GDP). More specifically, a recent study estimated that GDP growth would have been 13.5 percent higher between 1964 and 2009 if people had access to more affordable housing options, translating to a loss in U.S. economic activity of more than \$1.6 trillion annually due to lost wages and productivity.²¹

While we understand the current robust debate around the size and scope of the federal budget, these programs have provided tangible return-on-investment of taxpayer dollars and should be the type of investments congress continues to prioritize. For example, in 2020, every dollar invested into CDBG projects led to \$3.64 from other public and private sources; this totaled \$3.41 billion leveraged across 5,700 CDBG projects.²² Furthermore, since it launched it 1992, the HOME Program has led to the completion of over 1.3 million affordable units, while leveraging \$4.52 in public and private funds for every dollar invested.²³ Just these two programs have supported millions of jobs, generated hundreds of billions in local economic impact and built or preserved millions of affordable housing units.

Modernize and Strengthen Current Federal Programs

As is too often the case in large bureaucratic systems, action from our regulatory and legislative bodies trail the rapid rate of change that takes place in the market, and our current housing situation is no different. Most of the significant federal housing programs have not been updated in decades, leaving local policymakers with outdated tools to address the unique needs within their county. In order to fully

maximize the federal government's commitment to alleviating the housing crisis, modernization of current programs must take place. Below, is a compilation of some of the top housing legislative priorities for NACo. This is not an exhaustive list, and more information related to NACo's federal housing priorities and recommendations can be found in NACo's American County Platform.

Community Development Block Grant Program (CDBG)

The Community Development Block Grant (CDBG) program provides annual grants on a formula basis to assist urban, suburban and rural communities in improving housing conditions and expanding economic opportunities for low- and moderate-income individuals. Counties utilize the flexibility of CDBG funds to support projects that meet their local priorities in addressing community and economic development, housing, water, infrastructure and human service needs, ultimately improving the quality of life for county residents.

Over 200 urban counties are designated as "entitlement communities" and receive CDBG grants directly. Entitlement communities receive 70 percent of all CDBG funds, while states receive the remaining 30 percent. Non-entitlement communities, which are typically rural counties, must compete for funding via the state formula allocation.

CDBG provides increased opportunities for counties to plan, implement, and evaluate local community development and housing assistance programs. Under the program, county officials, and particularly those whose counties receive urban county designation, are afforded additional, flexible resources to address long-range physical, social, housing and economic development needs in their jurisdictions in a comprehensive manner. While the program continues to provide positive results for counties, **improvements are now needed to promote further use of resources to local-based challenges in the 21st Century.**

Congress needs to reauthorize the CDBG program with the following recommendations:

1. **Update the authorization level to meet today's demand and rising costs of construction.**
Accounting for no additional increases, and simply keeping pace with inflation, the program would be currently authorized at nearly \$12 billion. In addition to decreased purchasing power, entitlement communities within the program have increased sixfold since its inception in 1974.
2. **Provide Additional Eligible Use of Funds Flexibilities**, including adding new construction and "planning and implementation of activities designed to affirmatively further fair housing" as eligible use of funds.
3. **Increase the Public Service Cap**, from 15 percent to 20 percent.
4. **Permanently Authorize CDBG-DR**, by passing S. 1686, *the Reforming Disaster Recovery Act*.

HOME Investment Partnerships Program

HOME provides significant resources for communities to address social and economic needs of residents especially vulnerable and disadvantaged populations; the program's wide range of uses allows communities to adapt funding to meet priorities specific to their locality. While the program continues to provide positive results for counties, having never been reauthorized since its enactment in 1992, improvements are now needed to promote further use of resources to local-based challenges in the 21st Century.

Congress should strengthen and modernize the HOME program by **passing S. 3644, the *HOME Investment Partnerships Reauthorization and Improvement Act***.

Low-Income Housing Tax Credit (LIHTC)

The Low-Income Housing Tax Credit provides state housing agencies with the authority to issue tax credits, which help to subsidize the acquisition, rehabilitation or new construction of rental housing targeted to lower-income households. Developers typically then sell the credits to private investors to obtain funding to begin the project. Once the housing is placed in service, investors can claim the credit over a 10-year span.

While counties are not direct recipients of LIHTC, it is an important tool to stimulate private investment in the production of affordable housing, where it accounts for virtually all of the apartments constructed or rehabilitated for low-income renters.

Since it was created, the LIHTC has subsidized over 47,500 projects and 3.7 million housing units, using an average of \$8 billion in forgone revenue to subsidize the costs of building more than 107,000 units across 1,411 projects each year. Today, the LIHTC is the largest source of affordable housing financing in the United States.

Though it has a successful track record, there is still a growing need for affordable housing units throughout the country. To meet demand and thus, reduce housing costs, Congress must **pass S. 1557, the *Affordable Housing Credit Improvement Act***, to further strengthen and expand the LIHTC program.

USDA Rural Housing Service Programs

Rural counties face an increasingly complex set of challenges when it comes to addressing housing accessibility and affordability issues. On one hand, the pandemic has increased domestic migration, with thousands of people leaving cities and urban communities for certain rural counties, attracted to the lower costs, larger houses and land plots, and “small-town charm.” While other rural counties continue to face the consequences of decades of disinvestment – struggling to attract new jobs, residents and talent to bolster their local economy. This keeps large-scale investments into new construction by the private sector undesirable, access to credit rare for rehabilitation projects and raises the cost of construction due to the lack of workforce in the region.

These issues represent a small set of unique challenges facing rural counties across the country, which is why improving and modernizing the suite of USDA Rural Housing Service programs is paramount to keeping working families stably housed. **Congress can achieve this through the passage of S. 2790, the *Rural Housing Service Reform Act of 2023*.**

Provide More Direct to Local Government Funding Opportunities

Counties utilize community planning, land use, zoning and enact policies and other regulations that affect both the access and affordability of housing within their communities. Although, counties are prioritizing this work, they lack the resources and capacity to fully address the challenges associated with our current housing landscape and rely on our federal partners.

County governments are those closest to the people, giving us an unparalleled perspective on the needs within the community. This proximity makes us uniquely positioned to implement and administer vital intergovernmental systems, facilitate cooperation of all levels of government, and deliver results and

impact for our residents and businesses at the community level. **NACo supports legislation that recognizes counties as essential intergovernmental partners through long-term, direct investments in local governments.** In addition to our proximity to those we serve, counties have proven to be good stewards of taxpayer funds through the administration of numerous federal programs.

County Solutions Spotlight: Direct Aid for Housing Projects

- *Charleston County, South Carolina:* Allocated \$30 million in ARPA funds toward housing with \$11.5 million provided for gap financing to affordable housing developers. The largest developer recipient, Bridge North Charleston, plans to build 20 townhouses and sell them at below-market prices to buyers with low- to moderate- incomes. Other recipients of gap financing assistance include One80 Place, a nonprofit that aims to use the financing to construct a 70-unit apartment building for individuals who have experienced homelessness, and the Humanities Foundation, who aims to use the financing to convert a former school into an 82-unit apartment building for low-income elderly residents.
- *Essex County, New York:* Allocated a large share of COVID relief funding (\$300,000) to seed a new Essex County Land Bank, which received state approval to operate in May 2023. This new land bank will focus on property stabilization by acquiring vacant properties, increasing the availability of affordable housing, fostering economic development and growth and engaging community stakeholders.
- *Olmsted County, Minnesota:* is working with the Mayo Clinic to address housing affordability. As part of the Coalition for Rochester Area Housing established in 2017, the Mayo Clinic, Olmsted County and the City of Rochester have pledged a collective \$28 million to advance regional housing priorities, with \$10 million coming from Olmsted County's American Rescue Plan Act allocations. The economic impact of these efforts is expected to exceed \$200 million by enhancing homeownership for working individuals and families, increasing homeownership for Black, Indigenous and People of Color (BIPOC) families, creating and preserving affordable rental housing and expanding housing options for seniors. Banding together, the coalition also has a stronger footing to attain federal and state grants designated for particular entities like counties, nonprofits or cities, making the partnership more effective at advancing housing priorities.
- *Arlington County, Virginia:* Arlington County invested combination of local Affordable Housing Investment Fund and federal Community Development Block Grant and HOME Investment Partnerships financing for a total of \$11,021,000 in County support. The nearly \$4 million in HUD funding was particularly critical to the project and contributed to achieving the County's Consolidated Plan goals of creating and preserving affordable housing. The project leveraged about \$3.40 in other funds (such as LIHTC equity, deferred developer fees, etc.) to every \$1 in County funds that were loaned. The project did not originally include units serving very low income households, but after finance closing occurred, the Cadence was awarded \$3 million in Amazon Reach funds to "buy down" ten units, creating 5 units up to 30 percent AMI and 5 units up to 40 percent AMI.

The Cadence is a new apartment community located in Arlington, Virginia, owned and operated by the nonprofit Wesley Housing Development Corporation. It is 100 percent affordable, with 97 units ranging in affordability from 30-70 percent of area median income. This property will also serve special populations, including persons with disabilities, through the 10 on-site Permanent

Supportive Housing units. The residents in these units, who may otherwise be at risk of homelessness, will be provided affordable housing and will pay no more than 30 percent of their income towards rent - while also receiving support services to ensure successful community living.

- *King County, Washington:* King County is in the process of distributing \$26 million in funding to local organizations to create up to 760 units of affordable housing to meet the growing demand for accessible housing for low-income households. Federal funding sources include the HOME Investment Partnership Program and the Community Development Block Grant Program. Local funding sources include the Regional Affordable Housing Program and revenue from the Homeless Housing Document Recording Fee Surcharge.

The funding will go toward construction of 10 affordable housing developments that total 760 units. The awarded projects will generate 673 new and 32 renovated rental units throughout the region, including unincorporated King County. The funding also goes toward projects to build 55 new homeownership units.

Simplify Programs and Reduce Burdensome Compliance Requirements on Local Governments

According to a 2012 GAO report, federal housing assistance programs were housed in 20 different government agencies, spanning 160 programs and activities during fiscal year (FY) 2010. This has created a myriad of issues for counties, and other grantees, since the majority of federally financed projects are supported by multiple funding streams, including various federal sources. Coming with each funding stream is its own set of compliance and reporting standards, submission deadlines and other requirements. Ensuring projects remain compliant comes at a considerable administrative cost and typically drags out project completion timelines. **Greater alignment of federal standards between agencies (labor, procurement, environmental) would not only save time, but administrative costs associated with projects supported by multiple federal entities.** Furthermore, the reduction in costs associated with the administration of a project, would allow more resources to be allocated directly to the housing initiatives.

In addition to streamlining and reducing administrative burdens within the programs themselves, we need to ensure that initial application process for the grants and other resources aren't prohibitive for smaller, more resourced constrained counties. **Therefore, we urge congress to pass the bipartisan S. 2286, Streamlining Federal Grants Act.** By reducing the complexity and other barriers, it would level the playing field for smaller counties and communities, allowing them greater access to compete for these transformational funds.

CONCLUSION

As Congress considers upcoming budgetary decisions and legislative proposals, it is imperative that housing policy remains a top priority and policymakers prioritize long-term solutions that will increase the supply of affordable housing stock.

Chairman Whitehouse, Ranking Member Grassley and distinguished members of the committee – thank you for the opportunity to testify today. We appreciate your attention to mounting crisis. Counties across America look forward to working together to strengthen our communities and make sure all Americans have access to safe and affordable housing options. Thank you again for the opportunity to testify today on behalf of America's 3,069 counties.

-
- ¹ NACo Analysis of U.S. Census Bureau - American Community Survey (ACS) 5-year estimates, 2017-2021 (Tables B25091 and B25070).
- ² U.S. Census Bureau and U.S. Department of Housing and Urban Development, Median Sales Price of Houses Sold for the United States [MSPUS]; 2023.
- ³ U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: Rent of Primary Residence in U.S. City Average [CUUR0000SEHA]; 2023.
- ⁴ Redfin.com "Nearly Everyone With a Mortgage Has an Interest Rate Below 6%, Prompting Many to Stay Put" June 14, 2023.
- ⁵ Joint Center for Housing Studies of Harvard University, The State of the Nation's Housing, 2023.
- ⁶ Federal Reserve Bank of Philadelphia, Home Repairs Needs and Costs Estimates, 2023.
- ⁷ Joint Center for Housing Studies of Harvard University, The State of the Nation's Housing, 2023.
- ⁸ U.S. Department of Housing and Urban Development, Accessibility in Housing 2019 American Housing Survey; 2022.
- ⁹ "Calculating the Cost of Weather and Climate Disasters" (National Oceanic and Atmospheric Administration, 2023).
- ¹⁰ Policygenius.com "How the Home Insurance Crisis Added Fuel to the Housing Crisis Fire" November 3, 2023.
- ¹¹ Elijah De La Campa and Vincent J. Reina, "How has the Pandemic Affected Landlords?" (Joint Center for Housing Studies of Harvard University, 2021).
- ¹² Michal Grinstein-Weiss, Brinda Gupta and others, "Housing Hardship Reach Unprecedented Heights During the COVID-19 Pandemic" (Brookings Institute, 2020).
- ¹³ Frank Morris, "The Pandemic has Sparked Rising House Prices Across the Rural U.S." (National Public Radio, 2021).
- ¹⁴ United States Census Bureau, Income and Poverty in the United States: 2020; 2021
- ¹⁵ NACo County Explorer data, 2019.
- ¹⁶ See The National Law Review, "Affordable Housing is an Economic Development Benefit" (2015), available at www.natlawreview.com/article/affordable-housing-economic-development-benefit (May 17, 2018).
- ¹⁷ See, for example, Lisa Sturtevant, "A Guidebook for Increasing Housing Affordability in the Greater Washington Region," Housing Leaders Group of Greater Washington (2017), available at http://docs.wixstatic.com/ugd/06af46_0268b7d74a0a40ec88b5a7cfaa11333f.pdf (May 17, 2018).
- ¹⁸ Ron Moelis, "The Impact of Affordable Housing," The Huffington Post (2017), available at www.huffingtonpost.com/entry/the-economic-impact-of-affordable-housing_us_58d8088ee4b0f633072b38ce (May 17, 2018). This article cites a study conducted by HR&A Advisors, Inc. for the New York State Association for Affordable Housing (NYSFAFH): HR&A Advisors, Inc., "Economic Impacts of Affordable Housing on New York State's Economy," NYSFAFH (2017).
- ¹⁹ Up for Growth, Housing Underproduction in the U.S., 2022.
- ²⁰ Housingfinance.com "Housing is Infrastructure: Why We Should Make the Case to Congress" August 20, 2018
- ²¹ Chang-Tai Hsieh, Enrico Moretti, "Housing Constraints and Spatial Misallocation" (American Economic Journal, 2019).
- ²² U.S. Department of Housing and Urban Development, FY2023 Budget – Congressional Justification, Community Development Fund, March 28, 2022: https://www.hud.gov/sites/dfiles/CFO/documents/2023_CJ_Program_-_Community_Development_Fund_updated.pdf.
- ²³ HOME Coalition, FY23 HOME National Factsheet, 2022

Written Statement of Bill Slover

Principal at AVCO Interests LLC (AVCO)

Before the Senate Committee on The Budget

Wednesday January 31, 2024

“A Blueprint for Prosperity: Expanding Housing Affordability”

Chairman Whitehouse, Ranking Member Grassley, and Members of the Committee: Thank you for the opportunity to testify and share my perspective on the critically important issue of housing affordability, a challenge that affects too many people in this country.

My name is Bill Slover and I have over thirty years of experience in the real estate industry both in the private sector as well as the public sector. For today’s hearing, I will be focusing on my experience in the public sector side of the business, specifically the almost ten years I served on the DC Housing Authority Board (DCHA). Despite my best efforts, I was not successful in reforming the Housing Authority, and I hope my experience can inform this committee as it considers how best to allocate taxpayer dollars towards our nation’s affordable housing challenges.

I will focus on three key points.

1. My experience on the DC Housing Authority Board trying to carry out my fiduciary and governance obligations, and my extensive efforts to reform the agency.
2. The impact that poorly functioning municipal agencies such as a housing authority can have on the challenge of housing affordability.
3. Recommendations for how to reform housing authorities so they can better achieve their mission and be more accountable both fiscally and operationally.

To put things into perspective, it is important to understand the size and scope of the DC Housing Authority’s responsibilities. The agency houses well over 18,000 low-income families that include over 50,000 household members. This represents about 12-15% of the population of Washington, DC. The agency provides that housing through two major programs: The Housing Choice Voucher Program and the traditional public housing program.

On the traditional housing side, DCHA owns and operates 52 properties with over 8,000 units. The balance of the housing is provided through its various voucher programs. The annual operating budget for DCHA is between \$500 and \$600 million dollars and the agency employs over 700 people. Additionally, the agency has operational or financial involvement in another 23 properties with close to 4,500 units of housing. The agency is vast, complex, and has a very important mandate.

My experience on the DC Housing Authority Board

I was initially appointed to the board as Chairman in 2009 by Mayor Adrian Fenty. My goal was to improve affordability and ensure that every DC resident had a safe and decent place to call home. Almost immediately, I recognized the need for fundamental changes to the agency to accomplish these goals. Including the need for greater accountability for results, tighter controls over financial management (including but not limited to procurement), and improved execution of property management so that residents could have adequate and safe living spaces.

My efforts were not well met, and I was removed as Chair by the mayor, although I remained on the board as a commissioner and continued to advocate for reforms of the agency. When my two year term was up, I was not reappointed. Unfortunately, none of the reform efforts that I initiated took root and the agency's decline continued unabated.

In 2015 I was asked to rejoin the board as the designated Advocate Representative of the Consortium of Legal Service Providers, one of two independently appointed seats on the thirteen-member board. In that position, I had freedom beyond the mayor's agenda to aggressively push for efficiencies, reform, and better financial stewardship. I deeply studied the agency to find more efficient and productive ways to deliver on our mission, with my focus and attention concentrated on how to improve housing conditions, increase housing capacity and reduce costs to run the agency. I spent years focused on these reform efforts.

Progress was slow and the resistance to change was tough to overcome. Eventually it became clear that meaningful reform was not going to come from within. There was no will to do so from the board or the city leadership. I first tried to enlist the assistance of members of the local government, an effort that resulted in little to no help. Eventually the press became aware of the challenges at DCHA and began to cover the agency more closely. After many hard-hitting stories (a select list of which I have included in my submitted testimony), it became increasingly clear that not even negative media coverage was going to change the course of the agency that was increasingly failing the residents we served. Things continued to get worse.

A few examples come to mind:

- Large development projects taking 15 plus years to get started, delivering little to no net new housing for residents, and costing the agency millions in land contributions and subsidies.
- Numerous contracts that were under investigation for suspected waste, fraud, and abuse allegations
- The Chairman of the Board was forced to step down for potential violations of conflict of interest regulations regarding a multi-million-dollar contract.
- Suspected overspending in the \$300 plus million voucher program that would result in significant DCHA overpayments of rent that would reduce the number of people the agency was able to serve and had the potential to increase market rates across the city.
- Huge solar arrays that were installed, but not turned on in a timely fashion.
- Energy performance contracts under review for not having provided services procured.
- Allowing both the rent collection and the occupancy rate of public housing to drop to around 70%, far below any HUD acceptable level.

By the fall of 2021, I had exhausted all local avenues to enlist assistance in achieving reform of the agency. The waste, fraud and abuse in my opinion was out of control, and I was increasingly unable to perform my oversight obligation to the agency. The impact of all the mismanagement on our ability to perform even the basic functions of the agency was glaring. The agency was spiraling. At that point, I reached out to HUD and began a series of conversations that resulted in the Department's decision to conduct a top to bottom review of DCHA in early March of 2022. That review was made public in September of 2022 and was a blistering indictment of DCHA, leaving no division unscathed in its 82 findings and 26 recommendations.

The following is a portion of the Executive Summary of the HUD Report

Executive Summary – DCHA HUD Review 1

There are five principal issues contributing to DCHA's failure to administer its HCV and PH programs consistent with the Financial Management and Procurement requirements mandated by statute, regulation, and sub-regulatory guidance. These failures include, but are not limited to:

- *Inadequate oversight, management and tracking of critical “Financial Management and Procurement” functions and indicators that directly contribute to DCHA’s failure to comply with program requirements.*
- *Inadequate management and knowledge of property management functions including compliance with HUD rules and regulations that directly contributes to DCHA’s failure to comply with program requirements.*
- *Inadequate management and knowledge of HCV program functions including compliance with HUD rules and regulations that directly contributes to DCHA’s failure to comply with program requirements.*
- *Poor oversight of DCHA policies and operations, by DCHA’s Board of Commissioners and Executive Leadership that directly contributes to DCHA’s failure to comply with program requirements; and,*
- *DCHA’s failure to provide decent, safe, and sanitary housing opportunities for residents in violation of program requirements.*

DCHA’s inability or refusal to take serious and immediate remedial action for the items or subjects identified in this assessment, and make material progress in resolving these issues, may eventually lead to HUD making a determination of DCHA’s default under Section 6(j)(3)(A) of the U.S. Housing Act of 1937, and/or breach of DCHA’s Annual Contribution Contracts to provide HUD with more effective set of remedial tools to assist DCHA in addressing these issues.

A full copy of the HUD report is part of my submitted testimony and completely validated my concerns with DCHA, and in turn causing it to fail to perform the most basic functions of its mandate.

One would think that the reaction from the agency, the board, and the city would be to take HUD’s findings as a road map for improvement and come together to begin the hard work of digging out of this mess. That is in fact not what happened.

Instead, the Mayor, with support of the Chair of the DC Council, drafted emergency legislation and without a single public meeting disbanded the independent board of the DCHA, including elected members, and replaced it with a board fully appointed by the Mayor, which then gave the existing Executive Director a \$40,000 performance bonus and hired an outside consultant, funded by the Mayor, to address the findings in the HUD report. The action effectively removed all independent voices on the board, without whom the serious failures of the agency never would have come to light.

¹ Executive Summary for the HUD report on DCHA that is included at the end of this submission https://oag.dc.gov/sites/default/files/2022-10/DCReview_Final%209302022%20%281%29.pdf

The impact that poorly functioning municipal agencies such as a housing authority can have on the challenge of housing affordability.

In the year that has passed since the board changes it is hard to see any meaningful reform that has improved housing conditions at DCHA. Yet another Executive Director has recently been hired, who will surely be given the next year to get his bearings. Just last week there was another story in the Washington Post detailing how DCHA continues to struggle with payment standards in its \$300 million plus dollar voucher program. Things don't seem to be reforming.

This is unacceptable. PHAs are tasked with housing as many of our most vulnerable population as possible with the resources they have. It's simple math: If the agency is inefficient and ineffective, they spend more money on basic operations; fewer people get housed and there is a ripple effect across the pressure on the rest of the housing infrastructure.

Recommendations for how to reform housing authorities so they can better achieve their mission and be more accountable both fiscally and operationally.

In the end, the inability for Public Housing Authorities (PHAs) such as DCHA to function at a high level has a hugely negative impact on housing affordability. So the idea of giving additional monies to PHAs that are failing at their mission is not a wise use of valuable resources and historically has not resulted in a good return on investment. HUD needs to completely rethink its oversight of PHAs as their current process is failing far too often. A complete reorganization is required. No amount of money pumped into a PHA that doesn't have the proper governance, doesn't have the needed expertise, and is not held accountable to the dollars they are given will result in any sustainable progress in increasing housing affordability. The risk of failure is too high as has been proven over and over again here in the nation's capital and other cities.

That said I am still a believer that PHAs can and should play a critical role in the affordable housing landscape. A strong and healthy housing market needs a robust and functional subsidized housing provider and PHAs are structurally designed to be that provider. The idea of PHAs makes sense. The breakdown, however, is in the execution of that idea. Without proper governance, true accountability and a clear mission, PHAs have historically gotten off track.

As Senator Grassley, has pointed out repeatedly in his oversight, PHAs rely too heavily on local boards and government officials to be good stewards of billions of tax payers dollars, which is no way to exercise a fiduciary obligation to public dollars. HUD has never shown, as is evidenced by DCHA, the willingness to provide the level of oversight required for PHAs to ensure they can be accountable for the money they are being provided to perform the vital services they are tasked with. As evidence of this. HUD still considers DCHA to be a High Performing agency.

Unless and until this changes, PHAs will continue to underperform at a rate that no one should accept. However, if HUD did find a way to better exercise its obligation to oversee the monies given to PHAs, we could really begin to better understand why the cost of affordable housing is so high and begin to make the market corrections needed to bring down the cost. We could put in a system of accountability that would drive efficiencies and result in increased access to housing.

Then and only then will we be able to see the actual return on investment on the billions of dollars spent and be able to make educated decisions on deploying additional resources if needed. Until then, providing any additional monies to PHAs would be an irresponsible use of taxpayer dollars.

Instead, HUD should do three key things prior to any additional funding being provided to PHA's:

1. **Revamp its oversight of PHAs.** Greater accountability for tracking, reporting, and achieving results must be in place before progress can be made - both here in the nation's capital and in other cities.
2. **Change governance structure.** PHA governing bodies should be *held directly accountable to HUD* rather than local municipal leadership. As Senator Grassley, has pointed out repeatedly PHAs rely too heavily on local boards and government officials to be good stewards of billions of taxpayers dollars, which is no way to exercise a fiduciary obligation to public dollars.
3. **Demand qualified leaders.** PHAs are effectively large real estate businesses, and they need the appropriate expertise to function as needed. This may sound elementary, but it's true. Until PHAs can execute the basic functions of managing properties, setting rental rates, and overseeing a waiting list, they will continue to stumble. PHA's are operating businesses and need to be run as such.

Thank you again for the opportunity to testify and look forward to your questions.

Select News Stories On DCHA

<https://www.washingtonpost.com/dc-md-v/2024/01/23/hud-investigates-dc-landlords-vouchers/>

<https://www.washingtonpost.com/dc-md-v/2023/04/12/brenda-donald-bonus-dcha/>

<https://washingtoncitypaper.com/article/574827/d-c-housing-authority-is-failing-in-just-about-every-way/>

<https://districtdig.com/2023/08/18/black-box/>

<https://districtdig.com/2023/02/09/hiding-the-ball/>

<https://districtdig.com/2021/10/06/gilding-the-lily/>

<https://washingtoncitypaper.com/article/619499/trash-company-boss-met-with-dcha-official-before-winning-4-5-million-contract-former-employee-alleges/>

<https://dcist.com/story/23/06/01/dc-dcha-deadline-hud-report/>

<https://www.washingtonpost.com/dc-md-v/2022/11/13/dcha-audit-faults-procurement/>

<https://www.washingtonpost.com/dc-md-v/2023/04/26/dcha-housing-waiting-list/>



District of Columbia Housing Authority (DC001)
Assessment

U.S. Department of Housing and Urban Development
Coordinated by the Northeast Public Housing Network

Foreword

The following report details the results of HUD’s assessment of the District of Columbia Housing Authority (DCHA), DC001. A team of HUD staff, assembled from offices throughout the Northeast Network, conducted an on-site assessment on March 7 through March 11, 2022. The review assessed DCHA’s performance in operating its Public Housing (PH) and Housing Choice Voucher (HCV) programs from the period of October 1, 2019, to the present.

The findings, observations, and recommendations will serve as the foundation for the development of strategies and plans for improvement in any deficient areas. This assessment includes a discussion of policies and procedures with key DCHA staff, a review of documents and financial records, meetings and interviews with staff and members of the Board of Commissioners, sample unit inspections, and a site tour.

Executive Summary

There are five principal issues contributing to DCHA’s failure to administer its HCV and PH programs consistent with the Financial Management and Procurement requirements mandated by statute, regulation, and sub-regulatory guidance.

These failures include, but are not limited to:

- Inadequate oversight, management and tracking of critical “Financial Management and Procurement” functions and indicators that directly contribute to DCHA’s failure to comply with program requirements;
- Inadequate management and knowledge of property management functions including compliance with HUD rules and regulations that directly contributes to DCHA’s failure to comply with program requirements;
- Inadequate management and knowledge of HCV program functions including compliance with HUD rules and regulations that directly contributes to DCHA’s failure to comply with program requirements;
- Poor oversight of DCHA policies and operations, by DCHA’s Board of Commissioners and Executive Leadership that directly contributes to DCHA’s failure to comply with program requirements; and,
- DCHA’s failure to provide decent, safe, and sanitary housing opportunities for residents in violation of program requirements.

DCHA's inability or refusal to take serious and immediate remedial action for the items or subjects identified in this assessment, and make material progress in resolving these issues, may eventually lead to HUD making a determination of DCHA's default under Section 6(j)(3)(A) of the U.S. Housing Act of 1937, and/or breach of DCHA's Annual Contribution Contracts to provide HUD with more effective set of remedial tools to assist DCHA in addressing these issues.

Governance

DCHA was established by the District of Columbia Home Rule Act 87 Statute 779 in 1974. The authority was originally created as the Alley Dwelling Authority by Executive Order 6868 in 1934. Since then, it has transitioned through several name changes until it became DCHA in 1974. DCHA is currently operating under Title 6 Chapter 2 Subchapter I Section 6-201 of the District of Columbia Code passed in 1999, which established it as an authority separate and independent from the District of Columbia government.

Since 2003, DCHA has been a participant in HUD's Moving to Work (MTW) Demonstration program, a program for public housing authorities (PHAs) which provides the opportunity to design and test innovative, locally designed strategies using federal dollars more efficiently. The program also helps residents find employment, become self-sufficient, and it increases housing choices for low-income families. MTW allows PHAs exemptions from many existing public housing and HCV rules. MTW also provides funding flexibility when PHAs uses its federal funds. DCHA's Public and Indian Housing (PIH) programs are governed by its amended and restated MTW Agreement, Annual Contributions Contract for Public Housing, and Consolidated Annual Contributions Contract for the HCV program with HUD.

Currently, DCHA is not in compliance with the MTW statutory requirement to substantially serve the same number of low-income families as the number of families served absent of the MTW Demonstration. To remedy this, DCHA has developed a plan to increase and sustain PH occupancy. However, DCHA fails to meet milestones in its plan and has the lowest PH occupancy rate of all large PHAs in the country.

Board of Commissioners

In compliance with the district code governing the Board of Commissioners (DC Code Title 6, Chapter 2, Subchapter I Section 6-211), the Board must have 13 members appointed as follows—six appointed by the Mayor with the City Council's consent, one appointed by the City Council, three elected by residents, one labor representative named by Metropolitan Central

Labor Council, one housing advocacy representative named by the District of Columbia's Consortium of Legal Services Providers, one ex-officio member, and the Deputy Mayor for Planning and Economic Development. During our review, the Board was comprised of ten appointed members and two members elected by residents. Membership of the Board was listed as follows:

Name
Dionne Bussey-Reeder, Chairperson
Kenneth Council, Vice Chairperson (At-Large Resident Commissioner)
Ronnie Harris, Commissioner (HCVP)
Jose Arnaldo Ortiz Gaud, Commissioner
Ann Hoffman, Commissioner (Labor)
John Falcicchio, Commissioner – Deputy Mayor
Lejuan Strickland, Commissioner
Aquarius Vann-Ghasri, Commissioner (Family Resident Commissioner)
William Slover, Commissioner (Advocate)
Melissa Lee, Commissioner
Raymond Skinner, Commissioner

From March 8 through March 11, 2022, the review team conducted interviews via Zoom or in person with ten members of the DCHA's Board of Commissioners including Dionne Bussey-Reeder, Kenneth Council, Lejuan Strickland, Raymond Skinner, William Slover, Aquarius Vann-Ghasri, Ann Hoffman, Ronnie Harris, Melissa Lee, and Jose Arnaldo Ortiz Gaud. The review team also examined DCHA Board meeting minutes from the past year. Due to time constraints and scheduling conflicts, Commissioner Falcicchio was not interviewed as planned. The Resident Commissioner position representing senior/disabled residents was vacant due to a recent departure, and an election to fill the position was being scheduled.

From interviews and the review of the minutes, it appears Board Members regularly attend meetings. There is a diverse range of career backgrounds in the Board including professionals in

housing, redevelopment, community activism, and labor. The diversity should contribute to a well-rounded and knowledgeable Board. Members' tenure ranges from three months to twelve years.

PIH's review found there is not always agreement amongst the Board. Some members believe Mayor and District appointed members vote as a group without individual review of the action requested. Some Board members feel they do not receive sufficient information to make decisions at meetings, while others feel adequate information is received. Almost all Board members expressed a strong interest in receiving HUD's Lead the Way training to better understand and perform their duties.

All members displayed awareness of the problems the housing authority faces regarding the poor condition of the housing stock and the need for redevelopment, as well as lack of trust and credibility between DCHA and its residents. However, Board Members could not speak to specific actions it was taking at DCHA to make improvements in these areas. Some Board members highlight DCHA's poor job of communicating to the residents about redevelopment plans, the constant changes to these plans, and a lack of focus on resident services as root causes of the problems. Some members support redevelopment, others do not.

Public Board Meetings are held the second Wednesday of each month to vote on resolutions and to hear comments from residents. In addition, the Board meets monthly prior to the public Board Meetings with the Executive Director and DCHA staff for a private working session, as allowed under DC law. Working sessions are scheduled to discuss the reports and resolutions provided by the Executive Director, as well as other items, such as contracting, security and unit vacancies.

According to the Board interviews and review of the Public Board Meeting Minutes, discussions and questioning pertaining to resolutions occur primarily in private working sessions and committee meetings, but minutes from the working sessions are posted on DCHA's website.

Recommendations

- Find ways to improve Board transparency by ensuring all Board agenda items are available to the public;
- Provide training to develop Board capacity in critical functions including the overall role of the Board, procurement to include federal and district requirements and regulations, program operations, financial management, DCHA policies, HUD policies, and HUD program and reporting requirements;
- Board should attend HUD's Lead the Way training and training on repositioning and redevelopment of properties;

- The Board should draft a document including measurable performance goals for the Executive Director;
- Determine a regular to review the Executive Director's performance against documented goals;
- The Board should provide detailed reports on budget and financial condition, PH occupancy and vacancies, HUD reporting, HCV utilization, outstanding work orders, lease enforcement, criminal incidents at developments, and tenants' accounts receivables; and
- The Board should attend trainings on ethics covering authority and district requirements and regulations, and evidence of this training should be provided to HUD.

Executive Director

Brenda Donald was hired as the Interim Executive Director of the DCHA in June 2021. She was appointed to the position permanently in August 2021. Ms. Donald has a two-year contract with DCHA with a current annual salary of \$275,000. This salary exceeds HUD's salary cap; however, DCHA utilizes nonfederal funds to pay the Executive Director's salary. Before her employment at DCHA, Ms. Donald served in various administrative positions in D.C. Government including serving three times as Deputy Mayor and in Child Welfare. Her background is in Human Services, but Ms. Donald has no experience in property development, property management or managing federal housing programs.

Interview with Executive Director

The Board of Commissioners initially appointed Ms. Donald as the Interim Executive Director after the departure of the previous executive director in June 2021. Initially, she was appointed to serve for four months while the recruitment of a new executive director took place. She observed serious issues at DCHA such as a high PH vacancy rate, poor rent collection, staff performance issues, and the PHA not being data driven. After informing the Board of Commissioners of her observations, they asked her to remain as executive director on a permanent basis. She accepted a two-year contract that was subsequently executed between Ms. Donald and DCHA's Board of Commissioners.

According to Ms. Donald, she has spent a great deal of time meeting with resident leaders and feels the authority is in place to support the residents and to deliver services to them. Supporting residents will alleviate the high distrust between them and DCHA. She also believes DCHA's problems are solvable by "practicing basic property management." She is focused on creating a new organizational culture of customer service, accountability, and expectations. She meets weekly with her executive team and has set firm expectations on performance. Ms. Donald was not aware of the poor Public Housing Assessment Scores (PHAS) which would have resulted in

a Troubled PHAS designation if DCHA was not a MTW Demonstration participant. Ms. Donald did understand how high vacancy rates and poor rent collections were sources of the authority's problem. Filling unit vacancies is one of her top priorities. She expressed strong interest in HUD's Lead the Way training series.

Recommendations

- Training for the Executive Director to develop capacity in critical PHA functions including the overall role of the Executive Director and the Board, procurement, PH and HCV program operations, financial management, HUD policies, and HUD reporting requirements and systems. HUD's Lead the Way Training is available to assist in developing this capacity;
- Monitor executive team and ensure detailed reports on financial condition, public housing vacancies, HCV utilization, outstanding work orders, tenant accounts receivables, procurement actions and status of development projects are submitted weekly;
- The Executive Director should evaluate DCHA's current organizational structure the staff's capacity to perform assigned functions;
- The Executive Director should make changes to the existing organizational structure and develop and implement any staff training needed;
- The Executive Director should develop a document with measurable performance goals for each member of the executive team and determine a regular schedule for reviewing their performance against these goals;
- Develop a regular meeting schedule with Resident Leaders and the Resident Advisory Board to share updates and discuss issues; and
- Provide a monthly report to the Board on key performance indicators including financial condition, procurement, repositioning, capital improvements, occupancy, rent collection, lease enforcement activity, hiring and HCV utilization.

Governance Findings

The review team identified numerous findings, recommendations and observations related to DCHA programmatic operations directly related to poor oversight by DCHA's Board of Commissioners and DCHA's Executive Leadership. This information and the required corrective actions are included throughout this report.

Public Housing

Introduction

DCHA owns and operates 8084 units of federal public housing. These units are in 60 developments across the District of Columbia. In FY22, HUD provided \$52,972,662 to DCHA in Operating Grant Funds and \$23,592,851 in Capital Grant Funds to support these units. The team also reviewed DCHA's low rent public housing operations, including occupancy, waiting list management and tenant selection, resident files, financial statements, procurement, Enterprise Income Verification (EIV) utilization, lead-based paint testing results, unit/development conditions, work orders, the Capital Fund program, inventory control policy and related supporting materials.

Policies

Finding PH 1

DCHA's Admission and Continued Occupancy Policy (ACOP) has not been updated since 2017 and does not comply with DCHA's MTW Agreement and HUD regulations. The MTW designation does not waive the requirement for updating the ACOP; therefore, DCHA is out of compliance with its MTW Agreement and its ACC. Additionally, DCHA has implemented many changes in its administration of its Low-Income Public Housing (LIPH) program under the MTW program, which are not reflected in the ACOP as required.

Regulatory Citation 24 § CFR 960

Corrective Action:

DCHA must update its ACOP in accordance with HUD requirements and its approved MTW Plan. Staff must receive training on the MTW plan and HUD requirements. DCHA must provide HUD with a copy of the updated ACOP with Board Resolution and evidence of staff training.

Finding PH 2

DCHA is not safeguarding personally identifiable information (PII) required by HUD and preventing potential breaches of this sensitive data. DCHA is not protecting the privacy of individuals' information stored electronically or in paper form, in accordance with federal privacy laws, guidance, and best practices. DCHA was unable to provide any policies or procedures on how staff maintains and safeguards PII.

Regulatory Citations

24 CFR 5 (Subpart B), 24 CFR 200.303(e), Section 6 of the Housing Act of 1937, the Privacy Act of 1974, 5 USC § 552a (Privacy Act), PIH Notice 2015-06 Privacy Protection Guidance for Third Parties, The Freedom of Information Act (FOIA), 5 USC § 552, and Section 208 of the E-Government Act.

Corrective Action:

DCHA must immediately implement administrative, technical, and physical safeguards to protect applicant and participant information. This includes safeguarding electronic transmissions of sensitive data via fax, email, and other electronic devices. DCHA must consistently implement procedures to protect all hard copy and electronic files containing sensitive PII and manage access to sensitive applicant, tenant, and participant PII. Additionally, DCHA must train staff on HUD Information Security Procedures and mandates. Finally, DCHA must provide a copy of approved and implemented policies and procedures, along with proof of staff training to HUD.

Finding PH 3

DCHA is not in compliance with updated Violence Against Women Act (VAWA) requirements in accordance with HUD regulations and PIH Notice 2017-08.

Regulatory Citations

24 CFR Part 5, Subpart L and PIH Notice 2017-08 Violence Against Women Reauthorization Act of 2013 Guidance

Corrective Action:

DCHA must update and implement its policies, procedures, and PH lease to include revised requirements of PIH Notice 2017-08. DCHA should also attend training cover the above topics.

A copy of the updated Violence Against Women's Act (VAWA) policies and procedures, the PH lease, the Board Resolution approving the policy and PH lease, evidence of staff training, and DCHA's implementation plan must be submitted to HUD. DCHA's implementation plan must include documentation of PH participants receiving notification of the updated occupancy rights under VAWA.

Finding PH 4

DCHA failed to establish the Over-income policy, a statutory change in Section 103 of the Housing Opportunity Through Modernization Act of 2016 (HOTMA).

Regulatory Citations

PIH Notice 2019-11; 24 CFR 960

Corrective Action:

DCHA must update its ACOP and MTW Plan to implement these changes. The policy must include the implementation of an over-income limit in the program, clear descriptions of all instances of when the two-year timeframe begins, and the notification requirements put forth by section 103

of HOTMA. DCHA must provide copies of updated policies and procedures a plan and timeline for implementation, Board resolutions and evidence of staff training to HUD.

Finding PH 5

DCHA is not in compliance with the choice of flat rent by tenants. DCHA does not offer tenants the choice of flat rents or income-based rents. A review of tenant files revealed some tenants were on a flat rent; however, there was no indication of DCHA providing participants with options or a choice. While DCHA's FY2022 MTW Plan does discuss flat rent alternatives under Initiative 5, there was no written Policy or Procedure, which must be included per Notice 2021-27.

Regulatory Citations

24 CFR § 960.253; PIH Notice 2021-27

Corrective Action:

DCHA must update its ACOP, create and implement a procedure to ensure it gives each family the opportunity to choose between the two methods for determining the amount of tenant rent payable monthly. This option should be afforded at least once a year. The family may choose to pay as tenant rent either a flat rent, or an income-based rent. Except for financial hardship cases, the family may not be offered this choice more than once a year. No later than 90 days after the effective date of new Fair Market Rents (FMRs) or Small Area Fair Market Rents (SAFMRs) published by HUD, the PHA must compare the current flat rent amount to the applicable FMR and SAFMR/unadjusted rent to determine:

1. If the PHA is compliant with this law, no further steps are necessary.
2. If the flat rent is at least equal to the lower of
 - a) 80 percent of the FMR; or,
 - b) 80 percent of the SAFMR; or
 - c) If no SAFMR is available, 80 percent of unadjusted rent.

If the current flat rent is less than the lower of option a or option b, the PHA must set flat rents at no less than 80 percent of the lower of the 80 percent FMR or 80 percent SAFMR/80 percent unadjusted rent, subject to the utility adjustment in Section 6 of this Notice, or the PHA may request an exception flat rent pursuant to the requirements of Notice PIH 2021-27.

DCHA must provide HUD with documentation of updated policies and procedures, a plan and timeline for implementation, Board resolutions, and evidence of staff training.

Finding PH 6

DCHA's flat rent schedule has not been updated with the current Fair Market Rent (FMR). DCHA must establish flat rents at no less than 80 percent of the published FMR.

Regulatory Citations

24 CFR § 960.253; PIH Notice 2017-23

Corrective Action:

DCHA must establish policies and procedures to ensure flat rents are updated expeditiously with the most recent HUD published FMRs. Once approved by the Board, DCHA must provide HUD with the policy. Additionally, DCHA must amend its Annual MTW Plan because the MTW Agreement does not provide waiver of 24 § CFR §960.253. Initially, the MTW office approved a waiver of the flat rent regulations; however, it has investigated further, and it acknowledges the

initiative was approved in error. DCHA must provide HUD with copies of updated policies and procedures, a plan and timeline for implementation, Board resolutions and evidence of staff training.

Finding PH 7

DCHA is non-compliant with HUD regulations regarding pets in public housing. In 2014, DCHA rescinded its pet-free policy after a lawsuit. Since, the authority has not implemented a new policy regarding pets.

Regulatory Citations

24 CFR § 960.707; Notice FHEO-2020-01 “Assessing a Person’s Request to Have an Animal as a Reasonable Accommodation under the Fair Housing Act”; Public Housing Occupancy Guidebook Chapter 9

Corrective Action:

DCHA must establish and implement a pet policy that is board approved and included in their lease, ACOP and MTW Plan. For all development types, the rules or policies must, be reasonable and not conflict with any applicable federal, state, or local law or regulation governing pet ownership in residences. DCHA must provide copies of updated policies and procedures, a plan and timeline for implementation, Board resolutions and evidence of staff training to HUD.

Finding PH 8

DCHA is not in compliance with the Community Service and Self-Sufficiency Requirement (CSSR).

Regulatory Citation 24 CFR § 960.605

Corrective Action:

DCHA must establish policies and procedures for administration of CSSR for PH residents. DCHA’s policy must describe how the authority determines which family members are subject to or exempt from the service requirement. Also, the policy must describe the process for determining any changes to the exempt or non-exempt status of family members.

DCHA must provide families with a written description of the service requirement the process for claiming status as an exempt person, and how the PHA verifies such status. In addition, DCHA must notify the family of its final determination which will identify family members who are subject to the service requirement, and family members who are exempt persons. Last, DCHA must provide HUD with copies of updated policies and procedures, a plan and timeline for implementation, Board resolutions and evidence of staff training.

Finding PH 9

DCHA is non-compliant with the Minimum Rent Policy and Procedure (MRPP). In the MTW Plan, DCHA has a minimum rent established in the amount of zero (0) dollars, but the minimum rent amount is not in the ACOP. In addition, DCHA could not provide a policy or procedure on DCHA's implementation of minimum rent.

Regulatory Citation 24 CFR § 5.630

Corrective Action:

DCHA must create, adopt, and implement a policy describing when DCHA will charge a minimum rent and the process for requesting a financial hardship exception to the minimum rent. Also, DCHA must provide HUD with copies of the updated policies and procedures, a plan and timeline for implementation, Board resolutions and evidence of staff training.

Finding PH 10

DCHA is not making reasonable efforts to provide language assistance to ensure meaningful access for LEP persons to the recipient's programs and activities.

Regulatory Citations

2004 DC Access Act of 2004, Department of Justice (DOJ) LEP Guidance, Executive Order 13166E, FR-4878-N-02 Final Guidance to Federal Financial Assistance Recipients Regarding Title VI Prohibition Against National Origin Discrimination Affecting Limited English Proficient Persons

Corrective Action:

DCHA must conduct a four-factor analysis and develop a Language Access Plan (LAP) which will be utilized to provide appropriate language assistance to applicants, tenants, and other interested parties with Limited English Proficiency. DCHA must update its MTW Plan and

ACOP to include the LAP. DCHA must ensure that the LAP includes how DCHA will provide the following services:

- ✓ Oral interpretation services.
- ✓ Telephone service lines interpreter.
- ✓ Written translation services.
- ✓ Notices to staff and recipients of the availability of LEP services; or
- ✓ Referrals to community liaisons proficient in the language of LEP persons.

DCHA must provide HUD with copies of updated policies and procedures, a plan and timeline for implementation, Board resolutions and evidence of staff training.

Finding PH 11

DCHA is not in compliance with HUD regulations governing the occupancy of public housing units by police officers and resident employees. DCHA has some general language in its MTW Plan; however, it is not in the ACOP.

Regulatory Citations

24 CFR 960.505 (b), Notice PIH 2021-35, PIH Public Housing Occupancy Guidebook 7465.1 Chapter 6-3

Corrective Action:

In the MTW Plan and ACOP, DCHA must include the number and location of the units to be occupied by police officers and resident employees, the terms and conditions of their tenancies, and a statement verifying that the occupancy is needed to increase security and /or improve maintenance services for public housing. Instructions for designating units are provided in Notice PIH 2021-35. DCHA must provide HUD with copies of updated policies and procedures a plan and timeline for implementation, Board resolutions and evidence of staff training.

Finding PH 12

DCHA created its own Designated Housing program which is not in compliance with HUD regulations. DCHA's MTW Agreement does not provide the required authority to waive the Designated Housing Plan regulations.

Regulatory Citation

24 CFR Part 945 Designated Housing

Corrective Action

DCHA must compose and submit a Designated Housing Plan for every development classified as an “Elderly-only” development in the MTW Plan for HUD review and approval. Lastly, the authority must also remove Initiative 2 from its MTW Plan.

Occupancy

DCHA has 8,084 units of public housing of which 1,628 units are currently vacant. As of June 13, 2022, DCHA’s occupancy rate is 76.44%, which is the lowest PH occupancy rate of any large PHA in the country.

On February 8, 2016, HUD’s local D.C. Field Office (DCFO) executed an Occupancy Action Plan (OAP) with DCHA. The OAP contains action items and associated timelines DCHA was responsible for utilizing to improve occupancy at each of its PH developments. During the past seven years, DCFO has met regularly with DCHA and provided ongoing technical assistance. DCFO notes progress was previously being made on this plan with the occupancy rate rising to 92.5% in April 2018. However, over the past 40 months, occupancy at the DCHA has been on a continual decline.

Finding PH 13

DCHA is not occupying PH units in accordance with its policies, HUD regulations and MTW statutory requirements.

PH 13a

DCHA is currently out of compliance with its MTW statutory requirement to substantially serve the same total number of low-income families that would have been served absent the MTW Demonstration. This is the direct result of DCHA’s extraordinarily low public housing occupancy rate. On November 23, 2020, the MTW office sent DCHA a letter notifying the authority of its non-compliance with the MTW statutory requirement, which is also contained in the MTW Agreement between DCHA and HUD. During the most recent assessment year, DCHA was serving approximately 1,400 fewer families than it is required to serve to remain in compliance with the same requirement. DCHA has developed a Corrective Action Plan with short, medium, and long-term milestones to remedy this issue, but it is not meeting milestones.

Regulatory Citation

MTW Agreement, Section II, Requirements and Covenants, Paragraph D.

Corrective Action (PH 13a):

DCHA must develop and implement a plan with timeline to increase and maintain occupancy and to come into compliance with its MTW statutory requirement to serve substantially the same total number of low-income families as would have been served absent the MTW Demonstration. DCHA must provide this plan with timeline to HUD, for approval, and provide monthly progress reports.

PH 13b

DCHA does not have an accurate listing of vacant units and is not reporting an accurate status of units in the Inventory Management System/PIH Information Center (IMS/PIC) system.

Regulatory Citation (PH 13b) 24 CFR 908.104**Corrective Action (PH 13b):**

DCHA must complete an analysis of all units to determine its occupancy status. DCHA must compare this analysis to data it has submitted to PIC to develop and implement a plan to correct this data. In addition, DCHA must develop and implement a process for ongoing submissions to PIC and train staff on this process. DCHA must provide HUD with an accurate listing of all vacancies, its plan and timeline to address PIC errors, and evidence of staff training.

PH 13b1

Based on a sampling of HUD's IMS/PIC information conducted during the physical condition inspections, DCHA is not receiving the correct operating subsidy for occupied units. In most developments inspected, there were units that appeared vacant in IMS/PIC which DCHA showed as leased-up. Vacant units shown to the inspector indicated they were occupied in IMS/PIC.

Regulatory Citation 24 CFR 990.140**Corrective Action (PH 13b1):**

DCHA must complete an analysis of each unit to determine its occupancy status. DCHA must compare this analysis to data it has submitted to IMS/PIC to develop and implement a plan to correct this data. Once complete, DCHA must complete an analysis of operating subsidy to determine any overpayment and repay these funds to HUD from non-federal sources. DCHA must provide an accurate listing of all vacancies, its plan and timeline to address PIC errors, its operating subsidy analysis and evidence of repayment of any overpaid operating subsidy from non-federal funds to HUD.

PH 13b2

Based on a sampling of PIC information conducted during the physical condition inspections, DCHA is not correctly identifying approved vacancies in PIC. There are instances in which the

DCHA has units in Undergoing Modernization status that are not under modernization as well as units actively being modernized by independent contractors that are not identified as Undergoing Modernization in PIC.

Regulatory Citations

24 CFR 990.145; PIH Notice 2021-35

Corrective Action (PH 13b2):

Following the reconciliation of PIC data in the above finding, DCHA must coordinate with HUD's DCFO to rectify HUD approved vacancies in accordance with PIH Notice 2021-35.

PH 13c

DCHA does not have adequate internal procedures in place for tenant selection, resident transfers, unit turnaround or leasing for its public housing units. HUD reviewers found the following:

- DCHA's waitlist has been closed since 2013, and it has not actively lease available units. Instead, DCHA is only transferring existing tenants and only increasing the overall number of vacant units.
- DCHA's Property Management Operations (PMO) staff members lack knowledge of unit turnaround procedures and could not provide the status of vacant units. In the past year, there have been many staffing changes in the PMO office, which may have attributed to a decline in leasing units. PMO's Sr. Vice President has been with DCHA for under 4 months.
- DCHA's lease up time is excessive. The communication between DCHA's tenant selection, property management and maintenance department is poor.
- DCHA lacks reports to track the status of vacancies, offers and leasing. Each inspected development contained units that were 90-100% ready to lease up with no applicant known to the housing manager. In at least one instance, a unit was turned down by an applicant. After several months a second applicant was not identified.

Regulatory Citation 24 CFR 960.202

Corrective Action (PH 13c):

DCHA must develop and implement adequate procedures in place for tenant selection, resident transfers, unit turnaround or leasing for its public housing units and train staff on same. DCHA

must produce reports to track status of vacancies, transfers, offers and leasing. DCHA must provide HUD with a copy of these procedures, reports, and evidence of staff training.

Waiting List Management and Tenant Selection

Finding PH 14

DCHA is not selecting applicants from its waiting list in accordance with its policies, MTW Plan, and HUD regulations.

PH 14a

DCHA was unable to provide documentation to support the method used to select applicants from the waiting list with the same preference qualification. Additionally, the waiting list only showed the date of application; it did not provide the time of application.

PH 14b

DCHA was unable to provide documentation of the number of persons on its Public Housing waiting list. DCHA staff members were unclear whether there was one single waitlist or site-based waitlists. The FY2022 MTW Plan indicates DCHA was in process of cleaning up the waitlist and would transition to site-based waiting lists. However, this information had a 2015 date for completion and is still outstanding

PH 14c

DCHA has not updated its waiting list in ten years, and it could not provide the method it used to remove families from the waiting list. The FY2022 MTW Plan indicates DCHA was in process of cleaning up the waitlist and would move to site-based waiting lists. However, this information had a 2015 date for completion and is still outstanding.

PH 14d

DCHA does not maintain adequate waiting list records showing the status of applicants and eligibility actions it has taken.

Regulatory Citations

24 CFR § 960.206(e), 24 CFR § 960.202; PIH Notice 2017-23

PH 14 Corrective Action:

DCHA must establish and implement written policies for admission of tenants and train staff on the knowledge and implementation of the new policies. These policies shall provide and include the following:

- Targeting admissions to extremely low-income families;
- Deconcentration of poverty and income-mixing in accordance with the MTW Agreement;
- Precluding admission of applicants whose habits and practices may reasonably be expected to have a detrimental effect on the residents or project environment;
- Objective and reasonable policies for the authority's selection of eligible applicants, including requirements for applications and waiting lists (see 24 CFR 1.4), and for verification and documentation of information relevant to acceptance or rejection of an applicant, including documentation and verification of citizenship and eligible immigration status under 24 CFR part 5; and
- Policies of participant transfer between units, developments, and programs. For example, DCHA can adopt a criterion for voluntary transfer where the tenant must meet all obligations under the current program, including payment of charges to the authority.

DCHA must provide HUD with a copy of these policies and procedures, associated Board resolutions and evidence of staff training.

Corrective Actions 14 a-d:**PH 14a**

DCHA must develop and implement policies and procedures for selecting applicants from the waiting list with the same preference qualification using two criteria— (1) Date and time of application; and (2) A drawing or other random choice technique. In addition, the method for selecting applicants must verify how each applicant was chosen in accordance with the procedure specified in its ACOP. This method must be evident and clear for auditing purposes HUD must receive a copy of these policies and procedures, associated Board resolutions and evidence of staff training.

PH 14b

DCHA must analyze its records and determine the accurate number of households on its waiting list. DCHA must provide HUD with documentation of its plan to complete this analysis with a timeline and a copy of the Public Housing Waiting List.

PH 14c

DCHA must update its policies and procedures to clearly state its policy for removing applicants from the waiting list. These policies should include how families are removed from the waiting list if they do not respond to PHA requests for information, are determined ineligible, or have voluntarily asked to be removed from the list, and their appeal rights and train staff on the same. DCHA must provide copies of updated policies and procedures with required Board Resolutions and evidence of staff training to HUD.

PH 14d

DCHA must develop and maintain records of all actions taken on applicants to its Public Housing Program. The records must be in the form required by HUD, including requirements governing computerized or electronic forms of record-keeping, and in a manner that permits a speedy and effective audit. DCHA must train all staff on record-keeping requirements and Public Housing program tracking reports. DCHA must provide its plan and timeline, policies, and procedures for record-keeping, tracking reports, and evidence of staff training to HUD.

Finding PH 15

DCHA does not conduct criminal record screening and maintain record records in accordance with HUD regulations. A review of LIPH tenant files and information provided by DCHA staff found that DCHA keeps criminal records in the tenant/applicant file.

Regulatory Citation 24 CFR 5.905 (c)**PH 15 Corrective Action:**

DCHA must establish and implement its policies and procedures for records management and train staff on same. These policies and procedures must ensure any criminal record DCHA receives from a law enforcement agency must be:

- Maintained confidentially;
- Not misused or improperly disseminated; and
- Destroyed once the purpose(s) for which the record was requested has been accomplished, including expiration of the period for filing challenge to the PHA action without institution of a challenge or final disposition of any such litigation.

DCHA must provide copies of updated policies, procedures, associated Board resolutions and evidence of staff training to HUD.

Finding PH 16

DCHA does not screen applicants who may be subject to a lifetime sex offender registration in accordance with its policies and HUD regulations. In accordance with PIH Notice 2012-28, an application for admission into the applicable HUD-assisted housing program must include a complete list of all states in which any household has resided. In addition, DCHA must ask whether the applicant, or any member of the applicant's household, is subject to a lifetime sex offender registration requirement in any state.

DCHA's criminal screening policy documents reflect that DCHA checks applicants for anyone who may be a lifetime registered sex offender. However, the reviewer was unable to determine if DCHA's application and the authorization for criminal screening request included previous addresses. With the absence of this data, it could not be determined how DCHA verifies the complete list of all states the applicant may have resided.

Regulatory Citations

24 CFR 5.856; 24 CFR 960.204; PIH Notice 2012-28

Corrective Actions PH 16:

DCHA must develop and implement policies and procedures for screening applicants and train staff on same. In addition, the DCHA must update its application to include the requirements of PIH Notice 2012-28. DCHA must provide a copy of its policies and procedures, associated Board resolutions updated application, and evidence of staff training to HUD.

Record Keeping and HUD Reporting**Finding PH 17**

DCHA is not in compliance with HUD regulations on record retention.

Regulatory Citations

24 CFR 5.905(c), 24 CFR 990.325

Corrective Action:

DCHA must create, adopt, implement a records retention policy which provides DCHA's procedures for the retention of public housing applicant and tenant files. The policy must

include the duration of time DCHA will keep the files, and how DCHA will safeguard the files that may contain Personal Identifiable Information (PII). The policy should be accompanied by a schedule, which will provide the time frame by which DCHA will keep the files prior to archiving and or destroying. DCHA must train staff on the new policy and include in the ACOP. DCHA must provide copies of updated policies and procedures a plan and timeline for implementation, Board resolutions and evidence of staff training.

Finding PH 18

DCHA is not maintaining tenant files in accordance with HUD regulations. While onsite, the HUD team reviewed (25) public housing participant files. Twenty-three of the files reviewed were incomplete in at least one of the following areas: lead-based paint disclosure, HUD-50058 forms, VAWA, Policy and Notification of Tenancy Rights, Community Service and Self-Sufficiency Requirements, Citizenship Declaration form 214, Certification of Zero Income, EIV, third party income verification, flat rent documentation, leases, original applications, and Certification of No Assets

Regulatory Citations

24 CFR 5.236, 5.240, 5.512 and 960.253 PIH Notice 2007-27

Corrective Action:

DCHA must create, adopt, and implement Policies, Procedures including Quality Control review, which will ensure that all required data is in the tenant files and train staff on same. DCHA must conduct a review of all tenant files to ensure that information is complete and tenant files are auditable. DCHA must submit their plan and timeline for reviewing all tenant files and making corrections and evidence of staff training to HUD.

Finding PH 19

DCHA does not use the Enterprise Income Verification (EIV) in accordance with HUD regulations and its MTW plan.

PH 19a

DCHA not have a policy for monitoring reports for mandatory use of the Enterprise Income Verification (EIV) System. To reduce administrative and subsidy payment errors in accordance with HUD administrative guidance, PHAs are required to monitor specific EIV reports on a monthly and quarterly basis. The DCHA staff specified that the EIV reports were generated during the eligibility process and biannual /triennial recertifications. However, no documentation was provided by DCHA to corroborate these statements. The following EIV reports are required to be monitored monthly and/or quarterly:

- Deceased Family Report (Monthly);
- Identity Verification Report (Monthly);
- Immigration Report (Monthly);
- IVT Report based on PHA Reexamination Schedule (Report will include information from the New Hires Report (Monthly);
- Multiple Subsidy Report (Monthly); and
- Income Discrepancy Report (Quarterly).

PH 19b

DCHA failed to provide the names of the EIV User and Security administrators. To protect the integrity of EIV, PHAs must assign at least two user and security administrators. In addition, DCHA did not provide evidence verifying that the current users completed the required annual security awareness training, initial and updated EIV training. These trainings are mandatory before accessing EIV. Viewers/handlers of EIV data must complete annual security awareness training.

Regulatory Citations

24 CFR §5.233, §5.236; 24 CFR §5.233; PIH Notice 2018-18

Corrective Actions:

PH 19a

DCHA must establish a written procedure for the EIV system and train staff on same. The procedure must require DCHA staff to fully utilize the EIV system as required and include security protocols, including how DCHA will ensure only authorized users access EIV. DCHA must provide the EIV procedure and evidence of staff training to HUD.

PH 19b

DCHA must assign at least two (2) user and security administrators in the EIV system and train these staff members on their roles and responsibilities. The User Administrators **CANNOT** be the Security Administrators. User Administrators will have access to user administration and the responsibilities to request access for PHA staff, assign, modify, and remove user roles and assignments, assign PH projects (PH only), certify users, terminate access, and view user role history, termination, and user certification reports. The Security Administrators' will have access to audit reports, and the responsibilities is to monitor staff access to the system by viewing the various reports such as user session and activity and tenant data access. DCHA must submit to HUD a list of all current EIV users, assigned roles, and the date users completed all the required trainings.

Finding PH 20

DCHA does not transmit data timely and/or accurately into HUD's Inventory Management System-PIH Information Center (IMS-PIC). DCHA's IMS-PIC data is inconsistent with the data in accordance with HUD's guidelines. DCHA's low reporting rate is directly related to unresolved fatal errors in IMS-PIC when submitting 50058 family data. Additionally, while there is data for some families in IMS-PIC, many of these records are inaccurate and/or incomplete. When family data is inaccurate and not reported timely, it can adversely affect PHA funding and HUD's ability to monitor PHA compliance with HUD program rules and regulations effectively.

Regulatory Citation 24 CFR §908.104

Corrective Action:

DCHA must develop and implement procedures for timely and accurate IMS-PIC submissions. DCHA must ensure the number of families reported in IMS-PIC is consistent and DCHA must reconcile all PH-related fatal errors in IMS-PIC and ensure all records are complete and accurate. Finally, DCHA must provide IMS-PIC training to all PH staff. DCHA must provide the following information to HUD:

- DCHA IMS-PIC submission procedures and timeline for implementation;
- A report confirming the number of families reported in IMS-PIC is accurate;
- Proof that all PH IMS-PIC fatal errors have been corrected; and
- Proof of IMS-PIC training for all PH staff.

Continued Occupancy**Finding PH 21**

During the review of DCHA's lease, it was noted that the lease states that DCHA shall not pay interest on a tenant's security deposit. However, according to District of Columbia law, a landlord must hold a tenant's security deposit in an interest earning account.

Regulatory Citations

24 CFR § 966.4 Lease requirements and D.C. Municipal Code Regs.tit.14 § 311

Corrective Action:

The administration of security deposits is governed by district law. DCHA must review the district law regarding security deposits to ensure compliance. and must update the policy and procedures if district law has changed. DCHA must review their ACOP and/or tenant lease with respect to security deposits and modify these as well as financial policy and procedures for

security deposits to ensure consistency for all documents. The financial policy and procedures for security deposits must be reviewed and modified based on changes made to the PHA's ACOP and/or tenant lease. DCHA must notify all residents of any changes and must train staff on updated policies and procedures.

DCHA must create and retain an escrow bank account for the administration of security deposits that matches or exceeds the security deposit liability account for the PHA-managed units. DCHA must conduct a review of all move-outs, where a security deposit was paid out and pay out the interest that would have been earned on the deposit. DCHA must provide copies of updated policies and procedures, a plan and timeline for implementation, Board resolutions and evidence of staff training to HUD.

Finding PH 22

DCHA is not in compliance with its policy and procedure for collecting delinquent rents and other amounts owed. The review team was informed that some developments accept verbal payment arrangements, while others follow the procedure for rent collection requiring written repayment agreements. As a result, DCHA has a low rent collection percentage <50% of monthly roll.

Regulatory Citations

24 CFR § 902.43; 24 CFR § 903.7; 24 CFR § 966.4; Housing Authority Lease

Corrective Action:

DCHA must enforce its rent collection policy, keep track of tenants who are delinquent and ensure uniformity throughout all developments with the rent collection policy and procedures. DCHA staff must cease from accepting verbal repayment agreements and comply with the Policies and Procedures set forth in the ACOP. DCHA must provide copies of updated policies and procedures a plan and timeline for implementation, Board resolutions and evidence of staff training to HUD.

Finding PH 23

DCHA is not completing Public Housing annual re-examinations in accordance with HUD regulations and/or its MTW-approved alternative schedule, as required. At the time of our review, DCHA had 1,596 late re-examinations of family income.

Regulatory Citation 24 CFR § 960.257

Corrective Action:

DCHA must create and implement a procedure for conducting reexaminations and train staff on same. DCHA must also create a plan to complete late reexaminations with timeline. DCHA must provide copies of updated policies and procedures a plan and timeline for implementation, Board resolutions and evidence of staff training to HUD.

Finding PH 24

DCHA does not properly calculate rent. HUD reviewed 25 tenant files and income calculations were incorrect due to incorrect calculation(s), improper verification (s) and/or missing verification(s). Of the 25 files reviewed, only 3 files contained complete information. In addition, DCHA fails to offer tenants the option of flat rents.

Regulatory Citations

HUD 24 CFR, Part 5 “General HUD Program Requirements”, Subpart F, “Section 8 and Public Housing, Family Income and Family Payment”; HUD 24 CFR §5.601- §5.634 and HUD 24 CFR §960.259 “Family Information and Verification”.

Corrective Action:

DCHA must develop and implement rent determination and verification procedures, including quality control review, and train staff on same. DCHA must create a plan with timeline to audit all tenant files to determine rent and verify that proper verification of income/assets/expenses and household composition for all households is complete and accurate. Corrected 50058 forms for all households must be submitted in PIC/MTCS.

If the tenant rent increases, the tenant cannot be charged for the rent increase until a 30-day notice is provided. If the tenant was overcharged rent, a reimbursement must be made to the tenant from non-federal funds. DCHA must provide copies of updated policies and procedures, a plan and timeline for implementation, documentation of results of file review and evidence of staff training to HUD.

Finding PH 25

DCHA is not following its lease, and it cannot document when lease enforcement actions have taken place.

Regulatory Citation 24 CFR 966 subpart A (k)

DCHA must develop and implement Cause and Non-Payment Eviction Procedures and train staff on same. All lease enforcement actions must be recorded and placed in tenant files. In addition, tenants must be afforded the right to due process. DCHA must provide copies of updated policies and procedures, a plan and timeline for implementation, Board resolutions and evidence of staff training to HUD.

Finding PH 26

DCHA is not in compliance with its ACOP and HUD regulations regarding annual inspections. Inspections may be conducted no earlier than nine months and no later than 15 months from the date of the last required inspection.

Regulatory Citation

24 CFR 5.705, 24 CFR 200.855 (b)

Corrective Action:

DCHA must develop and implement policies and procedures for conducting annual inspections. DCHA must also supply its plan with timeline to complete inspections of all units. DCHA must provide copies of updated policies and procedures, a plan and timeline for implementation, Board resolutions and evidence of staff training to HUD.

Finding PH 27

DCHA is not in compliance with its ACOP and HUD regulations on Reasonable Accommodation requests, transfers, and tracking. DCHA has language in its ACOP that differs from the way they conduct intake, review, process, approve or deny of reasonable accommodation requests and transfers.

Regulatory Citation

24 CFR 100.24, Section 504, Fair Housing Act

Corrective Action:

DCHA must create, approve, and implement policies and procedures governing how it provides information to applicants and residents on reasonable accommodations and transfers, how it conducts intakes, process, approve and/or deny reasonable accommodation and transfer requests.

The policy and procedure must also clearly define how applicants and residents are informed about the status of their requests. In addition, DCHA must create a log tracking reasonable accommodation and transfer requests. The log must contain the request's submission date and approval/denial date. DCHA must train staff on both the Reasonable Accommodation and Transfer policies and procedures. DCHA must provide copies of updated policies and procedures, logs, a plan and timeline for implementation, Board resolutions and evidence of staff training to HUD.

Crime

In 2020, the D.C. Attorney General filed a lawsuit against the DCHA alleging the agency was “refusing to address systematic drug-and firearm related activity” at ten specific developments. Some developments were visited during this HUD review. During the review, HUD also found DCHA is not taking appropriate lease enforcement actions against households for violations including criminal activity. DCHA sent police escorts into the field to “make sure nothing happened” to the assessment team member conducting on-site inspections. Multiple housing managers indicated some applicants turn down units in their developments due to high crime. Additionally, one maintenance foreman informed HUD that emergency work orders are not addressed, at night, due to safety concerns.

DCHA maintains a regular police department, known as the District of Columbia Housing Authority Police Department (DCHAPD), to provide protection for its residents, employees, and properties. DCHAPD jurisdiction is concurrent with the Metropolitan Police Department (MPD). Members have the same powers as MPD, including the power of arrest. The DCHAPD's Command Center is in DCHA Headquarters and includes a state-of-the-art surveillance system which include cameras and Geo tracking to target problem areas within the portfolio.

Findings/Observations

Finding PH 28

Crime is not being adequately prevented in public housing.

Regulatory Citations

24 CFR 5 Subpart I; 24 CFR 5.861

Corrective Action:

DCHA must develop and implement a plan including a timeline to address crime for its entire portfolio and train staff on the same. The plan should also address lease enforcement consistent with 24 CFR 5.861. DCHA must provide a copy of plans and procedures, associated Board Resolutions, and evidence of staff training to HUD.

Observation OPH 1:

Not all exterior doors to multi-unit dwellings are equipped with a lock, which allows unauthorized persons to easily enter the buildings. Although there is no HUD regulation requiring locks on doors, the District of Columbia Municipal Regulation (DCMR) does contain this requirement.

Regulatory Citation 14 DCMR 705.5

Corrective Action (OPH 1):

DCHA must ensure each exterior door, when closed, fits reasonably well within its frame. The door must be equipped with a lock which will permit easy egress without a key. However, the lock will prevent entrance to the multi-unit dwelling without a key unless the door is opened from the inside, electrically or otherwise, by one of the tenants or an employee of the building owner.

Physical Condition and Capital Planning**Introduction**

Overall responsibility for the physical conditions at DCHA is shared by Senior Vice-President (SVP) of Property Management Operations (PMO) for routine maintenance and upkeep, and Senior Vice-President (SVP) of Office of Capital Programs (OCP) for capital planning. With respect to physical conditions, PMO's organization is structured into two main pillars starting with the SVP and converge on the Maintenance Foreman. In the first pillar, DCHA is broken into large segments covering multiple developments overseen by an area manager. The area manager's report to the PMO Deputy Director who reports to the SVP. Each development has a housing manager that reports to an area manager and is responsible for administration, cleanliness, and coordinating with the maintenance foreman for work order prioritization. In addition to coordinating with the housing manager, the maintenance foreman for the development is also accountable to the Regional Maintenance Supervisor (RMS), who is under the Chief of Facilities Maintenance who reports back to the SVP. Under organizational branches separate from those mentioned above, PMO is also responsible for landscaping, pest control, and employs painters, plasterers, roofers, carpenters, electricians, plumbers, and utility system operators.

With respect to physical conditions the Capital Planning organization is structured with a Chief of Planning, Design, and Construction and a Chief Operating Officer. The Chief Operating

Officer oversees both the Procurement Manager and Development Team. The Planning, Design, and Construction team consist mostly of Construction Project Managers, Inspectors, and designer professionals (i.e., architects). The Development team consists mainly of Development Project Managers.

Procedures for preventative maintenance, unit turnover, and work order control, submitted by the DCHA for review were all last revised in 1999 and not in use at the developments. Aside from the standard procedures being outdated, they were generally well written and could form the basis of a solid maintenance program should they be updated, trained on, and followed. For this assessment, Hopkins Apartments, Potomac Gardens, Capper Senior II, Benning Terrace, Lincoln Heights, James Apartments, and Sibley Plaza were inspected with a focus on site conditions, building systems, common areas, and vacant units. At each site the inspector was accompanied by the Area Manager, Housing Manager, Maintenance Foreman (as applicable), Regional Maintenance Supervisor, and Chief of Facilities maintenance. In addition to the on-site inspections, interviews were conducted with The SVP of PMO and SVP of Office of Capital Improvements.

Findings/Observations

Finding PH 29

Boiler rooms at Hopkins Apartments, Potomac Gardens and James Apartments are not being maintained in a manner that meets the physical condition standards to be considered decent, safe, sanitary and in good repair. Inspected boiler rooms all had leaks to some extent with verdigris and corrosion evident. Maintenance within these boiler rooms is contracted out to RSC Electrical and Mechanical Contractors, Inc. (RSC). DCHA is conducting insufficient contract administration and quality assurance of RSC's work.

Regulatory Citation 24 CFR 5.703

Corrective Action:

Review contract(s) with RSC and create a quality control checklist that can be used to provide oversight with a focus on spot checking daily, weekly, and monthly preventative maintenance items in the boiler rooms. Then integrate the checklist into the appropriate contract administration procedure(s) and train applicable staff on its use.

Finding PH 30

Potomac Gardens, Lincoln Heights, and James Apartments contain vacant units that are not free of health and safety hazards. Specifically, in each of these developments at least one unit was identified that had mold throughout the unit. In one instance, an active leak was discovered in a

mold unit during the assessment which was providing the moisture necessary for mold growth. (See photos below for the most extreme example of vacant mold units.)

Regulatory Citations

24 CFR 5.703(f), 24 CFR 905.300(b)(1)(ii)(C)

Corrective Action:

DCHA must inspect each unit in every building that contains at least one occupied dwelling unit and create a list of mold units and units with active leaks. For units with mold, this list must contain, at a minimum, every unit where mold has damaged more than one square foot of a floor, wall, or ceiling. The removal or remediation of mold in these units must be prioritized in the Capital Fund Budget before other costs of lower priority. DCHA must provide a timeline to complete inspections, a list of all mold units, a list of units with active leaks and a plan with timeline to repair leaks and to remediate any mold from units to HUD.



Photos: Mold/mildew and moss growing in a vacant unit that was discovered with an active leak (top left and right). Mold/Mildew on walls and floor (left) and wall and ceiling (right) in vacant/abandoned units. These units represent the most extreme examples encountered.

Finding PH 31

DCHA is not maintaining units in decent, safe, and sanitary condition. In addition to the violations contained in **PH Findings 30 and 31**, during our review HUD found:

- Procedures for preventative maintenance, unit turnover, and work order control, submitted by the DCHA for review were all last revised in 1999 and DCHA staff indicated that they are not currently in use at the developments;
- Hopkins Apartments, Potomac Gardens, Benning Terrace, and Lincoln Heights have work order backlogs that are impeding proper routine and preventative maintenance;

- The Regional Maintenance crews appear to be responding mostly to resident complaints brought to the DC Department of Consumer and Regulatory Affairs. As such, this leaves the local Maintenance Technicians to answer emergency work orders, routine work orders, and make ready vacant units that are within their capability;
- DCHA Maintenance staff state that they are not responding to Emergency Work Order Requests at night due to safety concerns;
- DCHA is not completing annual inspections of units; (See Finding PH-26)
- PMO and Capital Planning should collaborate to determine if more make ready work can be contracted out until work order backlogs are clear and the vacancy rate is more manageable. DCHA should also consider continued use of the Apprenticeship Training Program to clear work order backlogs, including appropriate make ready work orders; and
- Maintenance staff were not adequately trained on the Yardi system when DCHA management software was switched over in 2018. For example, at one development a member of the PMO staff remarked that one of the features the system was lacking the ability to upload photos with work orders upon completion while at another development this exact feature was something that the staff liked about it.

Regulatory Citation 24 CFR 5.703

Corrective Actions:

DCHA must develop and implement policies, procedures and tracking reports for preventative maintenance, unit turnaround and work orders and train staff on same. DCHA must develop a plan with timeline to address work order backlogs. DCHA must also train all staff on its current software system. DCHA must provide a copy of these policies, procedures and reports, a plan with timeline to address work order backlog, associated Board Resolutions, and evidence of staff training to HUD.

Finding PH 32

DCHA developments have aging infrastructure, such as wastewater pipes, that are exacerbating the deterioration of physical conditions. For example, backup of wastewater into ready to lease units is an issue in at least two developments inspected.

Regulatory Citation 24 CFR 5.703

Corrective Action:

PMO and Capital Planning should collaborate to identify and prioritize issues caused by aging infrastructure and consider modernization or replacement as appropriate when the associated units are being made ready.

Procurement**Introduction**

HUD initiated a remote review of DCHA's procurement actions in 2021. This review continued during the onsite review and this report provides HUD's Findings, Observations and Recommendation from both the remote and onsite review. As part of the remote review, HUD requested information from DCHA on 11 separate procurements. Additionally, as part of our onsite review, HUD requested documentation/records from DCHA for three (3) additional procurements actions. The following is a full list of the procurement actions reviewed:

- Contract # 0032-2020 - Studio 27 Architecture, Professional Architecture and Engineering Services, \$140,000, Non-Federal Award;
- Contract # 0028-B-2019 - Censere Consulting, RAD Financial and Development Consultant, \$150,000, Non-Federal Award;
- Contract # 0027-D-2019 - Matlock & Matlock, Administrative Hearing Officers, \$35,625, Non-Federal Award;
- Contract # 0018-2017 - Yardi Systems, Enterprise Resource Planning Application Software, \$4,350,000, Federal Award;
- Contract # 0001-2018 - Thinkbox Group, Energy Capital Improvement Phase 2 (ECIP 2) Management Consulting Services, \$14,586,466, Federal Award;
- Contract # 0005-2020 - Thinkbox Group, Utility Billing Administration, \$999,924.50, Federal Award;
- Contract # DJ69-0008-2019 - Irreno Construction, JOC General Construction, \$35,000,000, Federal Award;
- Contract # 0020-2019 - Amar Group LLC, Visual Inspection Services for Residential Housing Units, \$540,000, Non-Federal Award;
- Contract # X-2018 - HD Supply, Repair, Operating Supplies, Industrial Supplies and Related Products and Services (U.S. Communities), \$5,100,000, Federal Award;
- Contract # X-2019 - Mckinsey & Company, Consulting Services for Strategic Planning, \$948,600, Non-Federal Award;
- Contract # 31-2018 - Moya Designs, Capper Master Planner, \$350,000, Non-Federal Award;
- Contract # no contract Verbosity, computer services, \$875,260, Non-Federal;

- Contract # 0023-2017 Clifton Larson Allen, Auditing, \$1,132,515 original award, plus \$15,000 contract modification Non-Federal Award; and
- Contract # PO – 7,000 KN95 Masks, COVID-19 Health emergency, credit card purchase, \$21,999, Non-Federal Award.

HUD’s review found that systemic problems exist in DCHA’s procurement system because of a lack of appropriate oversight by the executive leadership and the Board. In addition, DCHA staff reported at times they felt constrained to take actions as directed by executive leadership and the Board, instead of in conformance with the regulations, policies and procedures that should have governed their actions. From the lack of a Board adopted procurement policy to smaller systematic issues, actions to ensure that federal funds are spent appropriately are required.

The review team found many of the procurements selected for review were paid for with non-federal funds including—Amar Group, Moya Design Partners, McKinsey & Company, Matlock & Matlock, Censere Consulting, Studio 27 Architecture, Verbosity, and KN-95 masks. As staff reported, procurements paid for with non-federal funds were handled identically to those paid for with federal funds it is likely those issues found in the non-federal procurements can also be found in procurements conducted with federal funds. While HUD will not require specific corrective actions on procurements paid for with non-federal funds the Department will mention them, as recommendations and observations, so the Board can protect itself from future findings and the financial hardships that may be caused by repayments to the Federal Government that such shortcomings could cause.

Findings

Finding P1

DCHA is operating without a Board adopted procurement policy is in compliance with HUD requirements. DCHA staff members state that an unadopted policy, for all federal and nonfederal procurement actions, has been in use since April 2017. Staff members indicated that this policy was presented to the Board, but it was not supported by a resolution. When asked for the prior policy, DCHA staff members provided a prior version and informed HUD that a search back to 2006 failed to find a corresponding Board resolution adopting the prior version. As such, DCHA is not able to document that it has conducted any procurement since 2006 under a Board adopted standard.

In addition, our review of the unadopted policy found that it is citing incorrect regulatory language. HUD’s Procurement Handbook for Public Housing Agencies, Handbook 7460.8 Revision 2, dated 2/2007, s PHAs are required, “...to establish and follow written procurement policy.” The unadopted DCHA policy in use states in section 7200.2, “These regulations apply to contracts for the procurement of supplies, services, and construction entered into by DCHA

after the effective date of these regulations." DCHA's current policy also states it is authorized to, "adopt and administer its own procurement and contracting policies and procedures."

Regulatory Citation

The standards at 2 CFR 200.318 require PHAS to have and use documented procurement procedures.

Corrective Action:

The Board must adopt a procurement policy in compliance with HUD regulations and train staff on the policy. DCHA must provide HUD with a copy of the policy, associated Board resolution, timeline for implementation and evidence of staff training. New federal procurement regulations went into full effect on November 12, 2020, and DCHA should consider these regulations when adopting a policy. Additionally, the procurement policy shall update Section 7224 to reference the updated regulations at 24 CFR 75 from the prior regulations at 24 CFR 135.

Finding P2

DCHA violated its procurement policy and HUD requirements in the award of contracts and utilizing federal funds for Irreno Construction and Consys Inc. In reviewing the Irreno Construction contract, which was paid with federal funds, HUD found the current procurement policy at DCHA did not allow for multiple awards from a single procurement action. In addition, DCHA made two awards to Consys Inc. in violation of its procurement policy and HUD requirements

HUD reviewers also found the Matlock & Matlock, Studio 27 Architecture, and Censere Consulting contracts were paid for with non-federal funds, which violates the current DCHA procurement policy: For these contracts, DCHA made multiple awards from a single procurement action when this is not allowed under the authority's current policy. Additionally, HUD's review of DCHA's provided report "Contracts Registry Open & Awarded Contracts FY '20 - Present" listed 378 contracts, including 49 multiple awards covering 220 contracts. These 220 contracts each violate current DCHA procurement policy

Regulatory Citation

DCHA's procurement policy at 7205.3(a) states, "An award will be made to the lowest responsible and responsive bidder whose bid meets the requirements of the IFB."

Corrective Actions:

DCHA shall cease utilizing federal funds for existing contracts with Irreno Construction and Consys Inc. DCHA will repay HUD all federal funds utilized for these contracts to from non-federal resources. Such payment will be made within 30 days of this report. If DCHA wants to make multiple awards from a single procurement action, it must adopt language allowing for this in its procurement policy. The Board must consider if the procedures for utilizing multiple

awards should require justification in line with standardized criteria or direct the Board approval of such actions to prevent bid splitting or favoritism in awards when multiple vendors may be selected following contract award.

DCHA's Board must also consider conducting in-depth reviews of its procurement policies and procedures on a regular basis that are not performed by people working on the day-to-day administration of the program.

Finding P3

DCHA procured materials utilizing federal funds from HD Supply Facilities Maintenance, Ltd (HD Supply), in violation of its policy and HUD requirements. DCHA stated it entered into a Cooperative Agreement with HD Supply. HUD outlines the conditions for this type of procurement in its Procurement Handbook. To use an Intergovernmental Agreement, the base agreement must have been procured under 2 § CFR 200, the Federal Regulations for Procurement Standards. The Notice of Solicitation DCHA utilized specifically states, "The Maricopa County Procurement Code (The Code) governs this procurement and is incorporated by this reference." Additionally, the Maricopa County Procurement Code, Article 10, Section MC1-1008 specifically states, "If a Procurement involves the expenditure of Federal assistance or contract monies, the Chief Procurement Officer or using agency shall comply with Federal law and authorized regulations which are mandatorily applicable and which are not presently reflected in this Code." DCHA failed to ensure the base contract was procured under Federal regulations.

Additionally, the contract between Maricopa County of the State of Arizona and HD Supply allows two methods for other entities to take advantage of the contract. The contract between Maricopa County of the State of Arizona and HD Supply, allows purchasing under the contract by Members of a cooperative purchasing group that includes the State of Arizona, many Phoenix metropolitan area municipalities and many K-12 unified school districts. At Section 3.8.1., DCHA is not eligible to use this contract under this clause. The contract between Maricopa County of the State of Arizona and HD Supply limits the purchasing under the second clause to other governmental entities throughout the State of Arizona at Section 3.9.1. DCHA is also contractually excluded from using the contract by the terms of the base contract.

Regulatory Citation 2 CFR 200.

Corrective Action:

DCHA shall repay HUD, with non-federal funds, for all federal funds expended to pay the HD Supply Facilities Maintenance, Ltd., contract effective May 18, 2018. Such payment will be made within 30 days of this report.

Finding P4

DCHA is utilizing geographical preferences in federally funded procurements in violation of federal regulations.

In reviewing the Yardi Systems for Enterprise Resource Planning Application Software procurement award, which was paid with federal funds, HUD found DCHA used a local (geographical) preference in its advertisement. However, in this procurement the geographical preference was not scored, and the local preference was not addressed by the bidders. Therefore, HUD will not require the repayment of federal funds for this procurement.

Additionally, in reviewing the non-federally funded procurements for the contract awards to Matlock & Matlock for Hearing Officers, Studio 27 Architecture for Professional Architecture and Engineering Services, Amar Group for Visual Inspection Services for Residential Housing Units, and Censere Consulting for RAD consulting services, HUD found DCHA utilized a local or geographical preference. Because these were all non-federal procurements, HUD is not requiring any specific actions be taken on these contracts.

DC Law § 2–218.43(D) & (E) does allow the use of local preferences. However, in reviewing the geographical preference in DCHA’s procurement policy, it was not as clear when to use it for federal vs. non-federally funded contracts.

Regulatory Citations

2 CFR 200.319(c) and DC Law § 2–218.43(D) & (E)

Corrective Action:

DCHA must update its policy to differentiate the procurement process for the utilization of local preference for federal vs non-federal funds and train staff on same. DCHA must provide a copy of the updated policy, associated Board resolution and evidence of staff training to HUD.

Finding P5

DCHA made payments to hotels used to relocate tenants during work on the environmental initiative without any open competition in violation of its policy and federal requirements. These expenses were paid with a credit card evading the procurement process.

Regulatory Citation

2 CFR 200.318. This also violates the DCHA procurement policy in use at the time which requires “...providing for full and open competition”.

Corrective Action:

DCHA must identify all payments made to hotels utilizing federal funds, from 2016 to present, and repay all funds to HUD from non-federal sources.

Finding P6

DCHA does not have appropriate delegations of authority in place for procurement actions. As part of our review, HUD requested a copy of its Delegations of Authority for procurement actions. DCHA staff provided HUD with a letter delegating procurement authority from the Executive Director to the Acting Director of Contracts and Administrative Services and the Lead Contract Specialist dated November 8, 2011. The previous executive director, who signed the letter, no longer works for DCHA. The two staff members given authority currently have different job titles. At least one of these staff members no longer has direct responsibility for procurement and her replacement has no delegated authority for the job she is performing based on the written record produced for review.

Regulatory Citation

The HUD Procurement Handbook for Public Housing Agencies, Handbook 7460.8, Revision 2, dated 2/2007 requires limits of delegated authority to be clearly stated in Chapter 2.

Corrective Action:

DCHA's Executive Director shall issue new delegations of authority and provide a copy to HUD.

Recommendation

DCHA shall hire an integrity monitoring firm to review all existing contracts to determine if they are in compliance with its procurement policy and HUD requirements. This report must also include the source of funds used for each contract. DCHA shall provide a copy of the report and its plan and timeline to take corrective actions to HUD. In addition, any misuse of federal funds identified must be repaid to HUD from non-federal sources.

Regulatory Citation

Per 2 § CFR 200.208(d), the above integrity monitoring is being imposed because of the failure to comply with the requirement to have a Board adopted procurement policy and ensure existing contracts comply with federal regulations.

Observations**Observation P1**

DCHA awarded multiple contracts totaling \$875,260.00, utilizing non-federal funds to Verbosity without any competition in violation of its procurement policy. Verbosity provided software, and competition for this type of work should have been possible.

Regulatory Citation

This violates DCHA's procurement policy in use at the time which requires "...providing for full and open competition."

Corrective Action:

DCHA's Board must investigate DCHA reasons for taking these actions. In addition, DCHA's Board must put procedures in place to ensure future procurement actions comply with its Procurement Policy before any contracts are awarded.

Observation P2

DCHA awarded contracts, using nonfederal funds, to Moya Design Partners, in violation of ethic requirements. DCHA's Board Chairman failed to disclose his domestic partnership relationship with the principal of Moya Design Partners. The Code of the District of Columbia provides a good cause waiver of ethical conflicts in extraordinary circumstances at § 6-220 (c)(1)(D). However, DCHA reported no ethics waiver were granted to the prior Board Chair.

Regulatory Citation

Code of the District of Columbia § 6-220 (c)(1)(D). The District of Columbia Housing Authority: Procurement and Contracting policy in use.

Corrective Action:

DCHA's Board should investigate and determine what actions it should take regarding these ethic violations. We further recommend the Board pursue such disciplinary or civil actions against employees and Board members, past or present, as may be appropriate. In addition, DCHA's Board should put procedures in place to ensure that all future procurement actions comply with their Procurement Policy and ethics requirements before any contracts are awarded.

Observation P3

DCHA purchased K95 masks, utilizing nonfederal funds, without any open procurement action in violation of its procurement policy.

Recommendation:

DCHA's Board should investigate DCHA's reasons for taking these actions. In addition, the DCHA Board should put procedures in place to ensure that all future procurement actions comply with their Procurement Policy before any contracts are awarded.

Housing Choice Voucher (HCV) Program

DCHA's HCV program offers applicants and participants a wide array of housing services, mainly funded by HUD. DCHA's CY 2022 HCV funding is \$250,799,139 in budget authority. Additionally, as of 12/31/2021, DCHA had \$8,860,921 in program reserves. DCHA has an Annual Contributions Contract for 16,038 units. As of February 2022, below is a list of HUD-funded programs administered by DCHA. The chart provides a breakdown of the number of families currently receiving assistance and the associated expenses as reported in the Voucher Management System (VMS):

	Feb-22	
Rental Assistance Component 1 (RAD1)	92	\$86,217
Homeownership	63	\$59,258
Moving To Work	8,368	\$13,255,979
One Year Mainstream - MTW	250	\$410,974
Family Unification Pre2008 - MTW	328	\$625,520
Family Unification 2008 Forward - MTW	8	\$19,522
Non Elderly Disabled 2008 Forward - MTW	130	\$190,354
Portable Vouchers Paid	110	\$141,965
HOPE VI	147	\$221,834
Tenant Protection	1,424	\$2,401,874
Veterans Affairs Supported Housing (VASH) Voucher	1,046	\$1,473,485
Total Vouchers	11,966	\$18,905,959
5 Year Mainstream	53	\$101,308
Number of PBVs under HAP and leased	1,575	
Number of PBVs under HAP and not leased	189	

DCHA closed its HCV waiting list in FY 2013 due to the number of applicants on the list, approximately 39,442. DCHA does not have an estimate of when the waiting list will reopen. Currently, DCHA is only selecting homeless families from its waiting list following the District of Columbia Municipal Regulations (DCMR 14). DCHA needs to update its HCV Administrative Plan to provide specific information on all preferences and priorities, their weight, and how families with the same preference are selected.

The HCV Compliance Monitoring Review aimed to ensure DCHA is operating the HCV program in accordance with HUD rules and regulations and DCHA's MTW Plan. The HUD team reviewed the organizational structure, Administrative Plan, HAP register, waiting list, payment standards, utility allowance schedules, reporting systems, and other supporting documentation. HUD also conducted interviews with staff to confirm processes and procedures. The review team was unable to review tenant files, rent reasonableness, HQS inspections,

recertifications, lease-up procedures, and rent calculations because DCHA failed to provide documentation and/or records.

Staffing and Capacity

Latweeta Smyers, Senior Vice President for the HCV Program/Eligibility Continued Occupancy Division, heads the HCV department. HCV staff includes 117 positions which consist of the Senior Vice President, Deputy Directors, Eligibility Supervisors, Supervisory Housing Program Specialist, Housing Program Managers, Mediation Specialists, Data Management Specialist, Housing Programs Quality Control Specialists, Data Analysts, Financial Analyst, Port Mobility & Landlord Relations Specialist, Clerical Assistants, Orientation & Training Coordinators, Mobility Specialists, HCVP Utilization & Port Mobility Supervisor, Quality Assurance Manager, Inspection Supervisor/ Manager, ROTC Supervisor/ Manager, Relocation Coordinators, Housing Program Specialists, Housing Inspectors, Inspection Enforcement Assistant, Scheduling Coordinator, Inspection Program Assistant, Homeownership Coordinators, Administrative Coordinator, Housing Program Coordinators, Intake Specialist, Recert/Eligibility Specialist, and Staff Assistants.

There have been numerous reorganizations and changes in the roles and functions of each department. As these roles and functions changed, minimal training was provided to staff in vital areas. HUD staff was unable to clearly understand the role of each department or the various positions as it appears the intake and eligibility process is very lengthy and goes through several stages before completion.

Since several sub-departments have various positions, DCHA should consider developing a process that allows for checks and balances of internal controls to ensure the agency is effectively and efficiently operating the HCV program. In addition, staff needs adequate refresher training in all areas of the HCV program and comprehensive training for the VMS, IMS/PIC, and EIV systems. DCHA staff seems knowledgeable, eager to learn, and capable of correcting the deficiencies within the agency if provided consistent and frequent training to adapt to the constant changes in HUD policies and procedures and the flexibility provided in its MTW Agreement.

Based on the onsite review and the review of the various documents provided by DCHA, the HUD team reports the following findings and recommendations related to program management and operations.

Finding HCV 1

DCHA's Administrative Plan is not in compliance with current HUD rules and regulations and its MTW Plan. DCHA's Administrative Plan was last amended on September 29, 2012. The MTW designation does not waive the requirement for DCHA to update its Administrative Plan; therefore, DCHA is out of compliance with its MTW Agreement. While the Administration Plan touches upon many of the mandated subjects stated in 24 § CFR 982.54, DCHA has implemented changes in the administration of its HCV program under the MTW Designation and new streamlining administration regulations, which are not consistent with the Administrative Plan. For example:

- In the approved FY2015 revised MTW Plan, DCHA updated its interim recertification process. Families would no longer have to report increases in earned income, regardless of how large, between scheduled biennial recertifications; however, the Administrative Plan has not been updated to reflect this change; and
- In the approved FY2016 MTW Plan, DCHA implemented triennial recertifications for families that consist only of elderly and/or disabled members on fixed incomes; however, the Administrative Plan has not been updated to reflect this change.

Regulatory Citation 24 CFR §982.54

Corrective Action:

DCHA must review and update its HCV Administrative Plan to be consistent with the MTW Plan. The Administrative Plan, including any revisions, and the MTW plan must be in accordance with HUD regulations and contain consistent requirements. In addition, the Plans must be formally adopted by the PHA Board of Commissioners. Once adopted, DCHA should train all staff on the Administrative Plan and the MTW Plan provisions. The Administrative Plan and the MTW Plan must be made readily available to residents and the public. DCHA must provide a copy of the updated Administrative Plan and MTW Plans, a copy of the Board Resolution approving the Plans, evidence of staff training, and evidence that these documents are readily available to the public to HUD.

Finding HCV 2

DCHA is not managing its waiting list in accordance with HUD rules and regulations and its MTW Plan.

HCV 2a:

DCHA was unable to provide documentation to support the method used for selecting applicants from the waiting list with the same preference qualification. Additionally, the waiting list only showed the date of application; it did not provide the time of application.

HCV 2b:

DCHA was unable to provide documentation of the number of persons on its HCV waiting list. DCHA's 2022 MTW Plan stated there are 39,442 families on its HCV waiting list; however, DCHA provided a copy of its waiting list, which only showed 36,602 families on the waiting list.

HCV 2c:

DCHA stated the waiting list was purged in 2014; however, there was no documentation to support this, or the method used to remove families from the waiting list. In addition, while onsite, HUD staff was advised that applicants are not removed from the waiting list but rather made inactive with the option of being placed back on the waiting list according to the original date and time of application.

HCV 2d:

DCHA does not maintain adequate waiting list records showing the status of applicants and edibility actions taken by DCHA.

Regulatory Citations

24 CFR § 960.206(e); 24 CFR 982.204

Corrective Actions:**HCV 2a:**

DCHA must develop a process for selecting applicants from the waiting list with the same preference qualification using two criteria (1) Date and time of application; and (2) A drawing or other random choice technique. In addition, the method for selecting applicants must leave a clear audit trail that can verify each applicant was chosen in accordance with the procedure specified in its Administrative Plan.

HCV 2b:

DCHA must analyze its records and determine the accurate number of households on its waiting list. DCHA must provide its plan to complete this analysis with a timeline and a copy of the HCV waiting list to HUD.

HCV 2c:

DCHA must update its policies and procedures to clearly state its policy for removing applicants from the waiting list. These policies should include how families are removed from the waiting list if they do not respond to PHA requests for information, are determined ineligible, or have voluntarily asked to be removed from the list, and their appeal rights and train staff on the same. DCHA must provide copies of updated policies and procedures with required Board Resolutions and evidence of staff training to HUD.

HCV 2d:

DCHA must develop and maintain records of all actions taken on applicants to its HCV Program. The records must be in the form required by HUD, including requirements governing computerized or electronic forms of record-keeping, and in a manner that permits a speedy and effective audit. DCHA must train all staff on record-keeping requirements and HCV program tracking reports. DCHA must provide its plan and timeline, policies, and procedures for record-keeping, tracking reports, and evidence of staff training to HUD.

Finding HCV 3

DCHA does not update its payment standards annually with the Fair Market Rents (FMRs) set by HUD in accordance with HUD rules and regulations and its MTW plan. DCHA's payment standards are currently set at 187% of 2019 FMRs.

Regulatory Citation 24 CFR §982.54(d)(14)**Corrective Actions:**

At least annually, DCHA must review its payment standards to determine whether adjustments are needed for some or all unit sizes. DCHA needs to conduct an analysis following its policy and HUD requirements and determine the correct Payment Standards for 2022. DCHA must provide a copy of the updated payment standards, using current FMRs, along with a copy of the rental market analysis to HUD.

DCHA must also conduct an analysis and determine what the correct Payment Standards should be for 2020 and 2021. If this analysis results in a change to the Payment Standards utilized by DCHA during this timeframe, DCHA's analysis must also identify any overpayment or underpayment of HAP and its plan to reimburse impacted participants, landlords, and HUD from non-federal resources. DCHA must provide this analysis, correct 2020 and 2021 Payment Standards, identified overpayment and underpayments, and its reimbursement plan to HUD.

Finding HCV 4

DCHA is not managing utility allowances in accordance with HUD regulations and its MTW Plan. DCHA has not reviewed or updated its utility allowances for the HCV program since October 1, 2015. This finding was also identified during a compliance monitoring onsite review conducted on August 7-11, 2017.

Regulatory Citation 24 CFR § 982.517(c)(1)**Correction Actions:**

DCHA must review its utility allowance schedule annually and revise its allowance for a utility category if there has been a change of 10 percent or more in the utility rates or fuel costs since the last revision. Additionally, DCHA must maintain the supporting documentation to determine the initial allowances and revisions. DCHA should submit its revised utility allowance to HUD. Additionally, DCHA must complete an analysis of utility costs from 2015 to 2022 and determine accurate utility allowances from each year. Based upon this analysis, DCHA must then review utility allowances provided for each of these years to determine if any underpayment or overpayment of utility allowances were made. DCHA must provide this utility analysis and documentation of all corrective actions, confirming that appropriate corrections were made for all impacted families. In the case of underpayments, DCHA must reimburse impacted participants from Administrative Fees or other non-federal funds. In the case of overpayments, DCHA must reimburse their HAP account from Administrative Fees or non-federal sources.

Finding HCV 5

DCHA does not conduct annual rent reasonableness assessments or perform rent reasonableness determinations in accordance with HUD rules and regulations and its MTW Plan. DCHA uses submarket rents determined by the District of Columbia Municipal Regulations (DCMR) to determine rent reasonableness. While onsite, concerns were raised to the HUD review team that DCHA was not following its local rent reasonableness process and

that it was being exploited by HCV landlords. HCV submarket payment standards should not be treated as a proxy for rent reasonableness reviews. It's unclear what DCHA's actual "process" is to verify that unit rents are reasonable. DCHA stated in its FY2022 Annual MTW Plan that a final comprehensive assessment of the local rent reasonableness activity would be completed by the end of FY2021.

Regulatory Citations 24 CFR § 982.507 and MTW Plan

Corrective Actions:

Establish policies and procedures to ensure that DCHA is performing a rent reasonableness determination before executing a HAP contract, before any increase in rent to the owner and if there is a ten percent or more reduction in the FMR schedule. DCHA must, if necessary, adjust its policy in the Annual MTW Plan and Administrative Plan. DCHA must complete the final local rent reasonableness comprehensive assessment and provide it to HUD.

Additionally, DCHA must also conduct a rent reasonableness analysis for 2021, 2022 and 2022 to determine if the unit rents were reasonable for all new admissions and rent increases. If this analysis results in a change to the HAP utilized by DCHA during these timeframes, DCHA must identify the amount of any overpayment of HAP and its plan to reimburse HUD from non-federal resources. DCHA must provide this analysis, identified overpayment, and its reimbursement plan to HUD.

Finding HCV 6

DCHA is not calculating Housing Assistance Payments (HAP) and the family rent to owner in accordance with HUD rules and regulations. As a result of DCHA's failure to update its payment standard and utility allowance annually, as required by HUD, the HAP and family rent to owner are not being calculated correctly.

Regulatory Citation 24 CFR § 982 subpart K

Corrective Action:

After DCHA determines the correct payment standard, as stated in the corrective actions for finding #3 and finding #4, DCHA must make corrections to all HAP and family rent determinations for the period in which the information was not updated. Additionally, DCHA must identify and provide to HUD the amount of any overpayment of HAP and family rent to owner, and its plan to reimburse HUD and any impacted families from non-federal resources.

Finding HCV 7

DCHA is not verifying rent burden for new lease-up and moves in accordance with HUD rules and regulations and its MTW plan. DCHA was unable to document that the rent burden for new lease-ups and moves does not exceed 40 percent of the adjusted monthly income.

Regulatory Citation 24 CFR 982.305(a)(5)

Corrective Action:

DCHA must implement a procedure to review rent burden for participants, which includes Quality Control, and train staff on the same. In addition, DCHA must maintain records/reports of this review for audit purposes. DCHA must provide these procedures, evidence of staff training and sample reports to HUD.

Finding HCV 8

DCHA is not conducting reexaminations in accordance with HUD regulations and its MTW plan. In addition, DCHA's Administrative Plan conflicts with their MTW Plan regarding how DCHA conducts recertifications (See Finding HCV #1). Also, DCHA could not provide documentation to show that it performs reexaminations of income and family composition, by family type, in accordance with its policies and procedures.

Regulatory Citations 24 CFR §982.516; MTW Plan

Corrective Actions:

- DCHA must update its HCV Administrative Plan and ensure its recertification policies are consistent with its MTW Plan. DCHA must provide a copy of its updated plans with Board Resolutions to HUD;
- DCHA must analyze all current HCV participants to determine what recertifications are required. Based on this analysis, DCHA must establish a plan and a timeline to complete these recertifications. DCHA must supply this plan to HUD and provide monthly updated progress reports; and
- DCHA must create and implement tracking reports for recertification and train staff on the same. DCHA must supply a copy of these reports and evidence of staff training to HUD.

Finding HCV 9

DCHA is not ensuring that units leased meet Housing Quality Standards (HQS) in accordance with HUD rules and regulations, its HCV Administrative Plan, and MTW Plan.

Regulatory Citations

24 CFR §982.405(b), 24 CFR §985.3(e) 24 CFR §982.404, 24 CFR §985.3(f)

HCV 9a:

DCHA is not conducting inspections or quality control inspections. DCHA was unable to provide documentation on inspections to HUD.

HCV 9b:

DCHA is not monitoring outcomes of inspections and taking appropriate action for corrections, including abatement or terminations of HAP contract. DCHA was unable to provide an HQS Enforcement tracking log identifying the outcome of the HQS inspections; therefore, HUD was unable readily identify which units had recently failed inspections due to health and safety deficiencies, nor did they provide the names of the owners where the HAP had been abated. DCHA provided a failed inspection report; however, the report did not show the date of follow-up inspections and the outcome of failed inspections.

Corrective Actions:**HCV 9a:**

DCHA must conduct inspections, including supervisory quality control HQS inspections, in accordance with its HCV Administrative and MTW Plans. DCHA must implement a procedure for both and train staff on the same. In addition, DCHA must create and implement reports for tracking inspections. DCHA must provide its plan with a timeline, proof of staff training, ongoing progress, and tracking reports to HUD.

HCV 9b:

DCHA must develop and implement procedures for HQS enforcement and train staff on the same. In addition, DCHA must create and implement reports that detail each HQS inspection of a unit under contract where the unit fails to meet HQS cited life-threatening HQS deficiencies, all other cited deficiencies, abated and terminated HAPs and family-caused defects. DCHA must provide a copy of these procedures, reports, and evidence of staff training to HUD.

Finding HCV 10

DCHA does not monitor elevated environmental intervention blood lead levels (EBLL) in accordance with HUD rules and regulations.

HCV 10a:

DCHA policies state that for units occupied by children under six (6) with an elevated environmental intervention blood lead level (EBLL), a risk assessment shall be conducted; however, DCHA failed to provide documentation to show that risk assessments are completed and compliance with regulations requiring data collection of addresses with children less than six years of age with EBLL. DCHA provided a spreadsheet of families matched through November 2021; however, they did not provide supporting documentation to show these are conducted at least quarterly, nor did they provide documentation to indicate how information is sent to the health department.

HCV 10b:

For instances where a child under six years old is identified with an EBLL, DCHA was unable to provide documentation to show that the HUD field office or the HUD Office of Lead Hazard Control and Healthy Homes were notified of the case within five business days.

Regulatory Citations

24 CFR §35.1225; 24 CFR 35.1225; Notice PIH 2017-13

Corrective Actions:**HCV 10a:**

DCHA must clearly define its policy for conducting risk assessments for units occupied by children under six (6) with EBLLs and ensure its policies and procedure are in accordance with Notice PIH 2017-13. At least quarterly, DCHA must provide an updated list of their HCV property target housing addresses to the health department so that the health department may evaluate whether they have information about incidences of EBLL cases in assisted housing.

HCV 10b:

DCHA must develop a tracking system and QA process to ensure that either they or the owner of the property notify the local field office and the HUD Office of Lead Hazard Control and Healthy Homes of EBLLs within five days of notification.

Finding HCV 11

DCHA does not safeguard personally identifiable information (PII) in accordance with HUD rules and regulations.

Regulatory Citations

24 CFR 5 (Subpart B), 24 CFR 200.303(e), Section 6 of the Housing Act of 1937, the Privacy Act of 1974, 5 USC § 552a (Privacy Act), PIH Notice 2015-06 Privacy Protection Guidance for Third Parties, The Freedom of Information Act (FOIA), 5 USC § 552, and Section 208 of the E-Government Act.

Corrective Actions:

DCHA must immediately implement administrative, technical, and physical safeguards to protect applicant and participant information. This includes safeguarding electronic transmissions of sensitive data via fax, email, and other electronic devices. DCHA must consistently implement procedures to protect all hard copy and electronic files containing sensitive PII and manage access to sensitive applicant, tenant, and participant PII. Additionally, DCHA must train staff on HUD Information Security Procedures (ISP) and mandates. Finally, DCHA must provide a copy of

approved and implemented policies and procedures to the field office, along with proof of staff training.

Finding HCV 12

DCHA is not in compliance with updated portability guidance in accordance with PIH Notice 2016-09, HUD regulations, and its MTW plan.

Regulatory Citations

24 CFR §982.301(a) §982.303(c), §982.314, (e), §982.353(c), §982.354(c), §982.355(b)), §982.4, and PIH Notice 2016-09

Corrective Action:

DCHA must update its policies and procedures to incorporate the regulatory requirements outlined in PIH Notice 2016-09 and train staff on the same. DCHA must provide copies of these policies and procedures as well as evidence of staff training to HUD.

Finding HCV 13

DCHA does not monitor or maintain participant files in accordance with HUD regulations and its MTW Plan. DCHA must maintain complete and accurate records for the program in accordance with HUD requirements in a manner that permits a speedy and effective audit. The records must be in the form required by HUD, including requirements governing computerized or electronic forms of record-keeping. The PHA must furnish to HUD accounts and other records, reports, documents, and information, as required by HUD.

HCV 13a:

DCHA uses two different software systems, Visual Homes Wizard and Yardi Voyager, to maintain electronic copies of tenant files; however, the file structure was not clear and auditable. HUD was unable to complete a review of tenant files for the following reasons:

- The electronic tenant records do not have uniformity in how files are uploaded, thus presenting an administrative burden for accessing and reviewing tenant documents, and DCHA staff members lack knowledge of the two software systems utilized by the DCHA;
- DCHA was unable to provide a report showing all families on the HCV program consistent with the number of families reported in VMS;
- Payments Standards are not up to date;
- The Utility Allowance schedule is not up to date; and
- DCHA has not performed the annual rental market analysis to determine rent reasonableness as required in the DCMR since 2019.

HCV 13b:

DCHA does not conduct Annual Quality Control Reviews of HCV participant files. DCHA's MTW Agreement exempts the PHA from submitting a SEMAP certification; however, DCHA is still required to follow SEMAP regulations. Under SEMAP regulations, PHAs are required to conduct annual quality control reviews of participants' files. During the onsite visit, DCHA did not provide evidence to confirm that annual quality control reviews of HCV participant files were conducted.

Regulatory Citations

24 CFR §985.3, 24 CFR § 982.158 (a)(b) (f)

Corrective Actions:**HCV 13a:**

DCHA must develop and implement participant file protocols in accordance with HUD requirements and train staff on the same. DCHA's participant files must be kept in a manner that permits a speedy and effective audit, and records must be in the form required by HUD, including requirements governing computerized or electronic forms of record-keeping. DCHA must provide to HUD their file protocols and the timeline for implementation, evidence of staff training, and evidence that files are maintained in accordance with HUD requirements. Once these actions are complete, HUD will conduct a full review of tenant files.

HCV 13b:

DCHA must conduct an annual Quality Control sample of files or records drawn in an unbiased manner and reviewed by a PHA supervisor (or by another qualified person other than the person who performed the original work) to determine if the work documented in the files or records conforms to HCV program requirements. DCHA must prepare, implement, and submit the protocols for the annual quality control reviews of HCV participant files to HUD along with any applicable tracking reports.

Finding HCV 14

DCHA is not in compliance with updated Violence Against Women Act (VAWA) requirements in accordance with HUD regulations and PIH Notice 2017-08.

Regulatory Citations

24 CFR Part 5, Subpart L and PIH Notice 2017-08 Violence Against Women Reauthorization Act of 2013 Guidance

Corrective Action:

DCHA must update its policies and procedures to include revised requirements of PIH Notice 2017-08, train staff on the same, and implement these policies and procedures. A copy of the updated VAWA policy and procedures, the Board Resolution approving the policy, evidence of staff training, and DCHA's plan and timeline to implement must be provided to HUD. DCHA's implementation plan must provide documentation that HCV participants have received notification of the updated occupancy rights under VAWA.

Finding HCV 15

DCHA is not tracking funds owed from HCV participants and/or landlords in accordance with HUD regulations and its MTW plan. DCHA was unable to provide a report showing funds owed from HCV participants and/or landlords and its collection methods and outcomes; therefore, it is unclear whether DCHA is collecting monies owed in a timely manner and in accordance with its policy and procedures. Although DCHA provided a tenant repayment report, the report showed several instances of large repayment amounts that were canceled without providing a justification. Additionally, the report only reflects agreements from December 31, 2019 to present.

Regulatory Citation 24 CFR §792.204

Corrective Action:

DCHA must maintain records to show amounts owed to the PHA from participants and/or landlords, any amounts recovered, and its collection methods and outcomes. DCHA must analyze monies owed, develop collections procedures, and train staff on the same. DCHA must provide a copy of its analysis, collection procedures, evidence of staff training, justification for debts canceled, and tracking reports to HUD.

Finding HCV 16

DCHA does not terminate HCV participants in accordance with its policies and HUD requirements. DCHA was unable to provide a list of participants terminated from the program and documentation of their process for appeals.

Regulatory Citation 24 CFR §792.204

Corrective Action:

DCHA must develop and implement termination procedures in accordance with its policies and HUD requirements and train staff on same. DCHA must create tracking reports and maintain records of all termination actions taken on participants including appeals. DCHA must provide these procedures, reports, and evidence of staff training to HUD.

Finding HCV 17

DCHA does not use the Enterprise Income Verification (EIV) in accordance with HUD regulations and its MTW plan.

HCV 17a:

DCHA not have a policy for monitoring reports for mandatory use of the Enterprise Income Verification (EIV) System. To reduce administrative and subsidy payment errors in accordance with HUD administrative guidance, PHAs are required to monitor specific EIV reports on a monthly and quarterly basis. The DCHA staff specified that the EIV reports were generated during the eligibility process and biannual /triennial recertifications. However, no documentation was provided by DCHA to corroborate these statements.

The following EIV reports are required to be monitored monthly and/or quarterly:

- Deceased Family Report (Monthly);
- Identity Verification Report (Monthly);
- Immigration Report (Monthly);
- IVT Report based on PHA Reexamination Schedule (Report will include information from the New Hires Report (Monthly);
- Multiple Subsidy Report (Monthly); and
- Income Discrepancy Report (Quarterly).

HCV 17b:

DCHA failed to provide the names of the EIV User and Security Administrators. To protect the integrity of EIV, PHAs must assign at least two user and security administrators. In addition, DCHA did not provide evidence verifying that the current users completed the required annual security awareness training, initial and updated EIV training. These trainings are mandatory before accessing EIV. Viewers /handlers of EIV data must only complete annual security awareness training.

Regulatory Citations

24 CFR §5.233, §5.236; 24 CFR §5.233 PIH Notice 2018-18

Corrective Actions**HCV 17a:**

DCHA must establish a written procedure for the EIV system and train staff on same. The procedure must require DCHA staff to fully utilize the EIV system as required and include security protocols, including how DCHA will ensure only authorized user access EIV. DCHA must provide the EIV procedure and evidence of staff training to HUD.

HCV 17b:

DCHA must assign at least two (2) user and security administrators in the EIV system and train these staff members on their roles and responsibilities. The user administrators **CANNOT** be the security administrators. User administrators will have access to user administration and the responsibilities to request access for PHA staff, assign, modify, and remove user roles and assignments, assign PH projects (PH only), certify users, terminate access, and view user role history, termination, and user certification reports. The Security Administrators' will have access to audit reports, and the responsibilities is to monitor staff access to the system by viewing the various reports such as user session and activity and tenant data access. DCHA must submit to HUD a list of all current EIV users, assigned roles, and the date users completed all the required trainings.

Finding HCV 18

DCHA does not transmit data timely and/or accurately into both HUD's Inventory Management System -PIH Information Center (IMS-PIC) and HUD's Voucher Management System. DCHA's IMS-PIC data is inconsistent with the data it has submitted in the Voucher Management System (VMS) in accordance with HUD's guidelines. This is evident in the disparities between the number of families reported in VMS versus the number of families reported in IMS-PIC, which appear to be directly related to unresolved fatal errors in IMS-PIC when submitting 50058 family data. Additionally, while there is data for some families in IMS-PIC, many of these records are inaccurate and/or incomplete. When family data is inaccurate and not reported timely, it can adversely affect PHA funding and HUD's ability to monitor PHA compliance with HUD program rules and regulations effectively.

Regulatory Citations

24 CFR §908.104, § 982.157 (b)(2) § 982.158 (a)(b)

Corrective Action:

DCHA must develop and implement procedures for timely and accurate IMS-PIC and VMS submissions. DCHA must ensure the number of families reported in IMS-PIC is consistent with the number of families reported in VMS. DCHA must reconcile all HCV-related fatal errors in IMS-PIC and ensure all records are complete and accurate. Finally, DCHA must provide IMS-PIC and VMS training to all HCV staff. DCHA must provide the following information to HUD:

- DCHA IMS-PIC and VMS submission procedures and timeline for implementation;
- A report confirming the number of families reported in VMS is consistent with the number of families reported in IMS-PIC, and the data in IMS-PIC is accurate;
- Proof that all HCV IMS-PIC fatal errors have been corrected; and
- Proof of IMS-PIC and VMS training for all HCV staff.

Recommendations

Recommendation HCV 1

DCHA should analyze the HCV Department's organizational structure and make necessary changes. DCHA should submit an updated organizational structure to HUD that clearly defines roles and responsibilities for each Department and position.

Recommendation HCV 2

DCHA needs to develop and implement QA/QC policies and procedures for the HCV program and train staff. DCHA should submit these QA/QC policies to HUD.

Recommendation HCV 3

DCHA needs to develop and implement internal control processes for the HCV program. DCHA should submit these internal control processes to HUD.

Recommendation HCV 4

DCHA should provide training for all staff working on its HCV program in all areas of the HCV program and comprehensive training for the VMS, IMS- PIC, and EIV systems.

Recommendation HCV 5

As of March 2022, DCHA was leasing 76% of its Unit Months Allowed (UMA). Additionally, it is spending 92.2% of their Calendar Year 2022 budget authority and 89.4% of all available funds, which includes reserves. This leasing trend has contributed to DCHA being found not compliant with the MTW statutory requirement to serve substantially the same number of families absent its MTW designation. HUD has a national goal of ensuring all PHAs are spending a minimum of 98% of their budget authority. DCHA should use the two-year tool to optimize and monitor its HCV budget allocation. DCHA staff should monitor spending and leasing closely and work with the field office to monitor program spending and request technical assistance in using the two-year tool.

Recommendation HCV 6

The Family and Landlord briefing package should be updated with the current Executive Director information and update utility, payment standards, VAWA and other required documents.

Recommendation HCV 7

DCHA submitted standard operating procedures (SOPs) for the FSS program, which were last updated in 2019. We recommend that DCHA update the SOPs to reflect any recent changes.

Finance

The review team analyzed DCHA's Financial Data Schedule (FDS), check registers, general ledger, Board meeting minutes, performance reports, and source documentation supporting disbursements. The team's financial assessment is based on data from the five-year period 2016 through 2020. The financial data for DCHA's fiscal year ended September 30, 2021, was not available at the time of this report as the PHA's FDS submission to HUD's Real Estate Assessment Center (REAC) was recently rejected, requiring multiple corrections.

Federal funding sources accounted for roughly \$338 million or 55% of total revenues, while local funding sources accounted for approximately \$277 million or 45% in FY 2020. See Finance 1 Attachment at conclusion of report.

At first glance, DCHA's entity-wide financial position appears healthy at the end of fiscal year 2020 with net current assets increasing to \$160,640,148 and a current ratio of 2.53, with no Accounts Payable over 90 days old. However, its financial position is trending downward with its current ratio decreasing by nearly 40% as its current liabilities increased by over \$40 million over the five-year period. While the overall entity appears sound, varied funding sources come with many restrictions.

Entity	2015	2016	2017	2018	2019	2020
Total Current Assets	\$157,585,750	\$156,483,366	\$162,612,037	\$292,635,445	\$270,220,374	\$265,795,500
Total Current Liabilities	\$38,492,612	\$44,319,050	\$50,190,750	\$88,094,700	\$72,948,125	\$105,155,451
Net Current Assets	\$119,093,147	\$112,164,316	\$112,422,178	\$204,540,655	\$197,272,240	\$160,640,148
Current Ratio	4.09	3.53	3.24	3.32	3.70	2.53
Accounts Payable over 90 days	0	0	0	0	0	0

DCHA's focus on consolidated financial reporting to its Board and Management has obscured the poor performance of public housing program. The program is not self-sustaining and relies on ever increasing infusions of local funds like the Agency's Business Activities and Central Office Cost Center financial profiles. Despite annual cash transfers from local funds, the financial condition of the Public Housing program has deteriorated steadily over the past five years as operating reserves declined from a high of \$59 million for FYE 2016, declining to \$9 million for FYE 2020. Months of operating reserves declined from 7.35 to 1.05 which is nearly considered insolvent as shown in the table below:

Summary of Operating Reserves & Monthly Expenses – FYE 2016 through FYE 2020

Account Name	2020			2019			2018			2017			2016		
	Balance	Difference	% Diff	Balance	Difference	% Diff	Balance	Difference	% Diff	Balance	Difference	% Diff	Balance	Difference	% Diff
Total Operating Reserves	9,029,484	(3,295,891)	-27%	12,325,375	(21,473,593)	-64%	33,798,968	(21,608,492)	-39%	55,407,460	(3,571,975)	-6%	58,979,435		
Monthly Expenses	8,599,459	(717,206)	-8%	9,316,664	683,555	8%	8,633,110	(5,623,740)	-39%	14,256,850	6,231,875	78%	8,024,975		
Months of Reserves (MOR)	1.05	(0.27)	-21%	1.32	(2.59)	-66%	3.92	0.03	1%	3.89	(3.46)	-47%	7.35		

DCHA's performance is not assessed by HUD's Public Housing Assessment System (PHAS) due to provisions of DCHA's MTW Agreement. However, these scores serve as a transparent indicator of the Public Housing Program's declining financial position. As shown below the PHAS Financial Indicator scores declined from 23 of 25 in 2016 to 11/25 in 2020.

	2020	2019	2018	2017	2016
PHAS Financial Score	11	6	10	21	23

The erosion of the program's financial position is due to annual operating deficits in its public housing operations. Public Housing Operating (PHO) expenses consistently exceed Public Housing Operating Subsidy and the program's tenant rents. The PHO subsidy formula is based on specific characteristics of each PHA's portfolio and benchmarked at levels adequate for a well-run public housing program to sustain itself. However, based on its audited submissions to REAC, DCHA has incurred increasing deficits over a five-year period increasing from \$20 million in 2016 to hovering around \$30 million in 2019 and 2020 as shown below.

	2020	2019	2018	2017*	2016
Operating Subsidy	\$58,000,000	\$63,000,000	\$64,000,000	\$55,000,000	\$54,000,000
Tenant Rent Charged*	\$18,000,000	\$19,000,000	\$21,000,000	\$22,000,000	\$21,000,000
Total Revenue	\$76,000,000	\$82,000,000	\$85,000,000	\$77,000,000	\$75,000,000
Less Operating Expenses	\$103,000,000	\$112,000,000	\$104,000,000	\$97,000,000	\$96,000,000
Deficit	\$27,000,000	\$30,000,000	\$19,000,000	\$20,000,000	\$21,000,000
Unit Months Available	101934	91939	7546	93226	89789
Unit months Leased	7216	81012	7019	88527	86938
Occupancy percentage	71%	88%	93%	95%	97%
PUPM Op Exp.	\$1,427	\$1,383	\$1,482	\$1,096	\$1,104

*\$73,875,417 Bad debt-mortgages was removed from 2017 operating expenses for this comparison.

* Actual tenant rent received was significantly less than tenant rent charged due to DCHA's rent collection issues.

The deficits are caused by income losses due to increasing vacancies, rent collection losses and higher than normal operating expenses. As noted as a finding in the Public Housing section of this report, DCHA lacks cohesive occupancy and rent collection strategies.

Recommendation F1

Based on the team's review of reports and discussions with DCHA's CFO, the financial reporting to the Board of Directors is done primarily at an entity wide level by providing revenue and expense variance reports. Further, based on the Team's discussion with DCHA Board Members, they were not aware of the declining financial position of DCHA's PH program.

DCHA must develop a robust regular financial reporting approach to management and the Board of Commissioners to improve transparency of financial information and to facilitate monitoring of the effectiveness, financial position, and performance of DCHA's programs and financial profiles. DCHA must provide financial reports to management and the Board of Commissioners at the development, program, and entity-wide level. DCHA is requested to provide a sample of management and Board reports to HUD.

Income

DCHA's PHO based on comparison of unit months available and leased, as reported in the Housing Authority's audited financial statements, has declined steadily from 97% in 2016 to 71% in 2020. Vacancies over 3% do not receive PHO subsidy unless they are in an approved vacancy status, such as "off-line for modernization." Based on an analysis of prepopulated data from HUD's OPFUND Web Portal, potential rent and PHO subsidy lost to vacancies is estimated at \$10,600,000 for 2021, and \$13,200,000 for 2022.

Recommendation F2

In addition to observations mentioned earlier in the Public Housing and Physical Condition and Capital Planning sections of this report regarding vacant unit turnover and improved leasing practices, DCHA should categorize its inventory of vacant units to determine units ready for immediate occupancy, those requiring typical turnover prep and those requiring significant modernization and immediately take actions to increase occupancy and house more families. Once units are categorized, staff should engage collaboratively with HUD's D.C. field office staff to properly categorize these in IMS/PIC. Once proper contracting and documentation is in place, the affected apartments can be considered "off-line for modernization," which will increase PHO subsidy eligibility.

Expenses

DCHA's FYE 2020 public housing operating expenses were compared to average expenses per occupied unit per month (PUPM) of a peer group consisting of three large MTW housing authorities in the Mid-Atlantic region: Baltimore, Pittsburgh, and Philadelphia. Its total operating expenses were 33% higher than these peers. The variance comes largely from three main expense categories—utilities; maintenance and operations expenses; and administrative salary expenses.

		Total PUPM Operating Expenses	Total PUPM Utility Expenses	Total PUPM Maintenance & Operations	Total PUPM Administrative Operations
DCHA	2020	\$1,430	\$327	\$485	\$92
Peers	2020	\$1,077	\$137	\$338	\$61

The PHA has an active energy performance program in place. However, actual utility costs are over two times higher than the peer group. Further, it appears considerable savings opportunities are available. As an example, significant issues were noted in the small sample of boiler rooms inspected during this review. Yet, the FY 2022 Annual MTW Plan notes only 60% of the \$86 million in funding for Phase II (initiated in 2016) of the energy performance contract was obligated through the end of 2020.

Recommendation F3

Provide an independent analysis of the efficacy of the EPC program including an updated status report on Phase II EPC work completed, in process, and a schedule of planned improvements. Provide this analysis and a schedule of planned improvements to HUD.

Inventory/Property/Equipment

Finding P1

DCHA failed to conduct an annual inventory as required by federal regulations. An entity-wide asset register of property and equipment was provided but a physical inventory was not conducted for FYE 9/30/2020 or 9/30/2021 due to COVID issues.

Regulatory Citation 24 CFR § 200.313

Corrective Action:

Complete a physical inventory of property and equipment during fiscal year 2022. DCHA must provide a copy to HUD.

Finding F2

Three sampled monthly payments to American Express CPS related to vehicle maintenance and operations from 2019 and 2020 totaling \$418,113.10 (8/4/2021 Check No. 3032 for \$111,080.78; 3/5/21 Check No. 3015 for \$104,939.86; 12/3/20 Check No. 3005 for \$202,092.46) remain unsupported as sufficient documentation was not provided. Total charges to DCHA's American Express CPS Account for 2021 were \$1,861,170.

Regulatory Citation 2 CFR § 200**Corrective Action:**

Provide copies of detailed invoices to HUD to support sampled expenditures of \$418,113.10 to HUD or repay applicable federal programs from non-federal funds. Further, the scope of invoices reviewed in this finding will be expanded if these sampled transactions are not properly documented.

Recommendation F4

DCHA has over 200 vehicles. DCHA's policies regarding the use of vehicles and maintenance and gas purchases should be evaluated to ensure they govern proper vehicle usage, include daily mileage logs, gas purchase logs, and monitor vehicle use when in employee custody to prevent personal use. DCHA should provide to HUD a formal, written evaluation of these policies and a determination of which vehicles are essential. Non-essential vehicles should be disposed of as a cost saving measure.

Payroll and Related Costs**Recommendation F5**

DCHA should compile an organizational chart and complete a comprehensive staffing analysis and take immediate steps to achieve appropriate staffing at sustainable levels. DCHA must provide a copy of this analysis, actions taken to reduce costs and an updated Organization Chart to HUD.

Our review found—(1) Administrative Salaries PUPM of \$93 are 52% higher than the MTW peer group average of \$61, and the highest of a peer group of 18 large and extra-large housing authorities in the Mid-Atlantic region; (2) Maintenance Payroll, Benefits and Contracts PUPM of \$440 are 56% higher than the MTW peer group average of \$283; and (3) The review team was

informed that the HR Department was compiling an organizational chart but was not able to provide it prior to the issuance of this report.

Disbursement and Credit Card Testing

The team selected 17 check disbursements totaling \$137,589 for testing. The team reviewed support documentation and general ledger entries for each of the 17 transactions to assess compliance with 2 CFR Part 200. Most of the transactions in the sample were found to be paid from non-federal funds. One disbursement to LaPrima Food Group for \$610.20 from the HCV Administrative Fee account in December 2019 was unsupported. Since our sampling method was not statistical due to time constraints, the team cannot conclude that results are representative of DCHA's total population of disbursements.

Credit card disbursements were also tested. DCHA used three corporate credit card accounts during the review period; American Express 7500; American Express 8869; and Wells Fargo. Charges of \$631,030. For three months, December 2020, March 2021 and August 2021 were selected for review.

Wells Fargo expenditures for the three months sampled were \$142,020. The account was primarily used to pay trash removal costs. DCHA staff stated this is because D.C. does not accept checks from DCHA for payment. Of the \$142,020, \$141,710 was spent for refuse removal and \$310 was for relocation costs.

American Express 8869 expenditures for the three months sampled were \$70,897. The charges were split between routine Central Office Costs like software licensing fees, advertising for human resources, travel, training, and relocation costs billed to specific properties. The relocation costs included hotels and gift cards purchased at CVS and Walgreens for paying per-diem food and transportation costs to temporarily relocated residents due to mold remediation and maintenance issues.

Receipts and documentation were requested for a sample of eight CVS and Walgreens transactions totaling \$9,742, as well as four hotel invoices for \$3,098. The hotel and per-diem costs were found well documented with detailed receipts, supported by emails explaining the purpose and consistent calculations. These expenses appeared to be necessary, reasonable, and consistent with the PHA's Standard Operating Procedures for maintenance related hotel and per-diem costs.

Payments to American Express 7500 during the three-month period were discussed earlier and included as Finding 1.

Finding F3

The disbursement from the HCV Administrative fee account to LaPrima Food Group for \$610.20 from December 12, 2019, was found to be unsupported.

Regulatory Citation 2 CFR § 200

Corrective Action:

Repay \$610.20 from non-federal funds or provide documentation of the programmatic purpose of expenditure.

Finding F4

DCHA does not have an executed General Depository Agreement. All Federal Funds are held by Wells Fargo Bank. A copy General Depository Agreement was provided but it was not signed by Wells Fargo. The PHA is now in the process of obtaining the Bank's signature.

Regulatory Citations - ACC and CACC**Corrective Action:**

DCHA must provide an executed copy of the General Depository Agreement to HUD.

Recommendation F6

Complete conversion from Yardi to Voyager prior to fiscal year beginning October 1, 2022. The Finance Department's software conversion from Yardi to Voyager has been problematic and is taking longer than expected. Some tasks are still done in each system which is cumbersome, making reporting and routine tasks overly time consuming. The conversion was expected to be completed by 9/30/2021 but issues arose during the reconciliation process and transition into the new fiscal year.

No Regulatory Citation**Recommendation F7**

Complete the Finance Department's reorganization, fill vacant positions and train staff to improve capacity and reporting. The Finance Department was recently reorganized. However, it is understaffed, especially in key leadership positions. A Development Manager was hired recently on February 28, 2022. However, the Comptroller, Budget Manager, Financial Analyst, Clerical Assistant and Payroll Specialist positions are vacant.

Repositioning

HUD has made various strategies available to public housing agencies (PHAs) to reposition public housing developments. These strategies may enable PHAs to provide thousands of families across the country with better-maintained units while creating opportunities to leverage public and private resources, easing administration, and preserving affordable housing. Repositioning moves families from a public housing platform to other forms of HUD rental assistance, such as HCV, Project-Based Vouchers (PBV), or Project-Based Rental Assistance

(PBRA). This change can help PHAs preserve affordable housing units, address rehabilitation and physical needs, and place properties on a more stable financial foundation. HUD's repositioning efforts provide communities with additional flexibilities to better meet local needs and funding options to achieve long-term viability for their affordable housing.

The Rental Assistance Demonstration (RAD) program is a repositioning strategy authorized in 2012 to preserve and improve public housing properties and address a \$26 billion nationwide backlog of deferred maintenance. RAD's purpose is to provide an opportunity to test the conversion of public housing and other U.S. Department of Housing and Urban Development (HUD)-assisted properties to long-term, project-based Section 8 rental assistance properties to achieve specific goals, including preserving and improving these properties by enabling public housing agencies to use private debt and equity to address immediate and long-term capital needs. RAD has two components. The first component allows the conversion of public housing and moderate rehabilitation properties to properties with long-term, project-based Section 8 rental assistance contracts. The second component allows rent supplement, rental assistance payments, and moderate rehabilitation properties to convert tenant protection vouchers to project-based assistance at the end of the contract.

The objective of this review was to determine whether the Authority administered its RAD conversions in accordance and compliance with HUD requirements. Other repositioning activities were not evaluated during this review except for one action questioned by a Board Member regarding the sale of DCHA's Headquarters building. In addition to the three conversions evaluated during this review, DCHA has three RAD transactions in progress; Melvo DC001001290, Judiciary House DC001001650, and Potomac Gardens DC001004430, as well as other local initiatives to address the capital needs of its housing stock.

Colorado-Columbia (DC001001950)

On December 18, 2013, the Authority applied to convert its 44-unit public housing project, Colorado, and Columbia Roads Apartments, to project-based vouchers. On March 27, 2015, it received its RAD award and commitment to enter into a Housing Assistance Payment (HAP) contract for the project under the first RAD component. In March 2017, HUD issued the RAD conversion commitment for the conversion. The project was substantially renovated in 2012 and 2013; therefore, no substantial rehab was completed as part of the conversion. Closing occurred on March 15, 2018.

Fairlawn Marshall (DC001005280)

On July 13, 2015, the Authority applied to convert its 30 public housing units called Fairlawn Marshall to project-based vouchers. On June 23, 2016, it received its RAD award and commitment to enter into a HAP contract for the project under the first RAD component. In March 2017, HUD issued the RAD conversion commitment for the conversion. The project was substantially renovated in 2009; therefore, no substantial rehab was completed as part of the conversion. Closing occurred on July 16, 2018.

Matthews Memorial Terrace (DC001005320)

On July 13, 2015, the Authority applied to convert its 35 public housing units called Matthews Memorial Terrace to project-based vouchers. On June 23, 2016, it received its RAD award and commitment to enter into a HAP contract for the project under the first RAD component. In July 2017, HUD issued the RAD conversion commitment for the conversion. The building was constructed in 2011; therefore, the immediate needs were minimal, and no substantial rehab was completed as part of the conversion. Closing occurred on July 16, 2018.

Findings/Observations

DCHA could not provide documentation to show that it consistently monitored the three completed RAD PBV conversions per HUD rules and regulations. The details and corrective actions are detailed as follows:

RAD PBV Finding 1

The PHA's Board is not confirming that the Project Owner is making deposits into the Reserve for Replacement account in accordance with the Rental Assistance Demonstration Conversion Commitment (RCC) or assessing the financial health of the Covered Project on an annual basis.

Regulatory Citations

RAD HAP Contract Rider, RAD Notice H-2019-09, PIH-2019-23 (HA) Section 1.6.D.2; "The Owner must submit to the administering PHA's Board the operating budget for the Covered Project annually. DCHA's Board must confirm that the Project Owner is making deposits into the Reserve for Replacement account in accordance with the RCC as well as assess the financial health of the Covered Project."

Corrective Actions:

- DCHA must provide evidence that the operating budget for each conversion was submitted to the Board of Commissioners (Board);
- The Board must confirm that the annual deposit into the Reserve for Replacement account was made in accordance with the Rental Assistance Demonstration Conversion Commitment (RCC); and
- DCHA must provide evidence that an assessment of the financial health of each conversion was completed.

DCHA must provide all evidence and documentation to HUD.

RAD PBV Finding 2

DCHA could not provide evidence of the required monthly deposits to the Replacement Reserve for all projects. Evidence was provided to confirm deposits for Matthews Memorial Terrace DC001005320 and Fairlawn Marshall DC001005280; however, the reviewer could not verify that monthly Replacement Reserve deposits were made for Colorado and Columbia Roads Apartments DC001001950 because the statements were not provided. Furthermore, DCHA did not provide evidence that it regularly monitors the Reserve for Replacement accounts to ensure deposits are consistent with the Rental Assistance Demonstration Conversion Commitment (RCC).

Regulatory Citations

RAD Notice RAD Notice H-2019-09, PIH-2019-23 (HA) Section 1.6.D.10; RAD HAP Contract Rider

Corrective Action:

The authority must provide evidence that it has completed a review of all projects confirming that the owner is making monthly deposits into the Reserve for Replacement account in accordance with the RCC.

DCHA must provide evidence of the review to HUD.

RAD PBV Finding 3

DCHA could not provide evidence that the Replacement Reserve draws were used for legitimate capital expenses. DCHA failed to produce documents for Fairlawn Marshall DC001005280 or Colorado and Columbia Roads Apartments DC001001950. DCHA only provided support for 2021 withdrawals for Matthews Memorial Terrace DC001005320.

Regulatory Citations

RAD Notice H-2019-09, PIH-2019-23 (HA), HUD Handbook 4350.1 Rev-1

Corrective Action:

DCHA must review all Replacement Reserve accounts' draws to ensure they were used for legitimate capital expenses.

The PHA must provide evidence of the review to the HUD as well as any corrective actions necessary with timeline to HUD.

RAD PBV Finding 4

Although the DCHA provided evidence of HQS inspections by an independent entity, there was no evidence to confirm that the Authority analyzed the reports to identify trends, provided recommendations to the property manager, or submitted HQS inspection reports to the D.C. Field Office as required.

Regulatory Citation 24 CFR 983.103(f)(2)

Corrective Action:

The PHA must develop and implement a procedure to ensure that all required HQS inspections by independent entities are completed and that copies submit HQS inspection reports to the D.C. Field Office. DCHA must provide a copy of this procedure, a timeline for implementation and copies of all required HQS reports to HUD.

RAD PBV Finding 5

Unable to determine if DCHA processed the RAD Contract Rent Adjustments correctly because the HAP register submitted was incomplete.

Regulatory Citations

2012 Appropriations Act (PL112-55); RAD Notice H-2019-09 PIH-2019-23 (HA)

Corrective Action:

DCHA must provide a complete HAP register to HUD. The HAP register must include:

- Name and address of family;
- Name and address of owner;
- Unit size;
- Beginning date of lease term;
- Monthly contract rent to owner;
- Monthly tenant rent;
- Monthly housing assistance payment to owner; and
- Date family vacated, and number of days unit is vacant, if any.

RAD PBV Finding 6

Unable to determine if the PHA is collecting the correct tenant rent based on Total Tenant Payment (TTP) and any applicable RAD rent phase-in because the HAP register submitted by the PHA was incomplete.

Regulatory Citations

RAD Notice H-2019-09 PIH-2019-23 (HA), 24 CFR 353

Corrective Action:

DCHA must provide a complete HAP register to HUD. The HAP register must include:

- Name and address of family;
- Name and address of owner;
- Unit size;
- Beginning date of lease term;
- Monthly contract rent to owner;
- Monthly tenant rent;
- Monthly housing assistance payment to owner; and
- Date family vacated, and number of days unit is vacant, if any.

RAD PBV Finding 7

DCHA did not provide documentation that the RAD Owners/Property managers comply with the resident participation funding requirement.

Regulatory Citation

RAD Notice "Project Owner must provide \$25 per occupied unit annually for resident participation, of which at least \$15 per occupied unit shall be provided to the legitimate tenant organization at the covered property."

Corrective Action:

DCHA must provide documentation to HUD, verifying the resident participation account has been fully funded.

The authority should work with the residents to determine the most appropriate ways to foster a constructive working relationship, including supporting the formation of a legitimate resident organization.

RAD PBV Finding 8

DCHA could not provide documentation that the RAD Owners/Property managers comply with the choice mobility requirements.

Regulatory Citation

RAD Notice; "the mobility component provides that if the family has elected to terminate the assisted lease at any time after the first year of occupancy in accordance with program requirements, the PHA must offer the family the opportunity for continued tenant-based rental assistance, in the form of either assistance under the voucher program or other comparable tenant-based rental assistance."

Corrective Action:

DCHA must provide documentation to HUD demonstrating compliance with this requirement with one of the following— (1) Evidence of households requesting and receiving a Housing Choice Voucher; (2) Evidence of households who have requested a choice mobility move and have priority status on the HCV waitlist; or (3) A document in the initial lease package that identifies this right to choice mobility.

Other Repositioning Activity

DCHA is also conducting redevelopment under the New Communities Initiative (NCI), a development program funded by the District of Columbia. Six developments are currently slated to be or are in the process of redevelopment under this program. Federal properties to be redeveloped must be processed through HUD's Special Applications Center (SAC) and meet the Section 18 demolition/disposition requirements for obsolescence. For federal properties, Tenant Protection Vouchers are offered to tenants to relocate with a voucher through the HCV program or residents have the option to relocate to another DCHA PH property. Under the District of Columbia's New Communities Initiative (NCI), no tenant protections exist as they do under HUD's Federal programs.

Complaints have been expressed by tenants about DCHA's performance and conduct in executing its NCI, and how the redevelopment has been conducted. Some of the claims made are:

- Resident groups have not been informed of changes in site redevelopment plans;
- PHA has broken commitments to not move tenants from current housing until replacement units have been built, i.e., "Build First";

- PHA has broken promises to minimize disruption by offering temporary replacement units in wards not currently resided in versus buildings in their current ward;
- PHA not practicing one for one replacement of public housing units as promised. Market rate and LIHTC units are being planned for the redeveloped properties, reducing the number of public housing units;
- Regular maintenance on properties slated for redevelopment halted in retaliation for tenant complaints about relocation actions and what is viewed as staff harassment;
- Harassment by PHA staff to move out of units at Park Morton;
- PHA violating land covenant at Greenleaf Mid-Rise & Senior extension prohibiting construction of market rate housing on site;
- Tenants denied right to choose units in developments used for temporary relocation. Assigned units are too small. Relocated tenants are not permitted to view LIHTC units in the property for possible occupancy; and
- PHA building new units not bigger than three bedrooms, too small to accommodate public housing tenants.

Recommendation

The complaints by resident groups are a continued example of the lack of trust and poor communication between residents and DCHA. DCHA should schedule regular meetings with the resident groups affected by redevelopment under its New Communities Initiative to discuss plans, timelines, relocation options and planned changes regarding these properties. Tenants should be clearly and accurately informed of their rights and present and future possibilities to reside in redeveloped properties. Customer service training should be provided to public housing staff to ensure tenants are treated professionally, respectfully and provided the assistance needed to meet their relocation goals.

Observation

One Board member expressed concerns about the sale of the DCHA headquarters building, believing the valuation of the property was too low, and that a conflict of interest existed between a former Board Chairperson and one of its chosen contractors in the deal. A follow-up call was made by HUD with the Board member, HUD's Special Applications Center (SAC) Director, HUD's MTW Deputy Director and HUD Review Team member. The SAC Director discussed the appraisal of the property, the use of proceeds, environmental review, and resident consultation requirements. HUD's review of documentation submitted by DCHA found no violation of federal guidelines or regulations in the transaction.

WRITTEN TESTIMONY OF

Todd B. Walker*

Before the

U.S. Senate Budget Committee Hearing on

A Blueprint for Prosperity: Expanding Housing Affordability

January 31, 2024

Chairman Whitehouse, Ranking Member Grassley, committee members, thank you for the opportunity to speak with you on such an important topic. It is an honor to be here.

With the recent increase in mortgage rates, housing has become substantially less affordable today than just a few years ago. Let's compare two families: Family one purchases the median-priced home with a twenty-percent down payment at the 30-year fixed mortgage rate available in January of 2021. Family two purchases the same home at today's mortgage rate. Family two will pay an *additional* \$800 per month and an *additional* \$285,000 in interest payments over the life of the loan. For a family making the median income, the additional mortgage payments of \$800 per month constitute 20% of disposable income.¹

This prohibitive increase in the cost to purchase a home comes at a time when the price of all goods and services are increasing dramatically. The good news is the rate of inflation has been coming down. The bad news is that changes in the *price level* since 2020 have made essentials like groceries 25% more expensive.² Inflation is a tax on everyone and families are still feeling the pinch. Housing costs are, by far, the largest item in a family's budget. If housing becomes more affordable, this makes food, education, childcare, transportation, and all other necessities more affordable as well.

What does this analogy have to do with the budget of the United States government? The only difference between these two families is the mortgage interest rate. This interest rate is tightly connected to the interest paid on the 10-year U.S. Treasury Bond. Since 1990, these two time series have moved in lock-step with a near-perfect correlation of 0.98.³ As the common phrase reminds

*Walter Professor of Financial Economics, Director of the Center of Applied Economics and Policy Research, Indiana University; walkertb@indiana.edu. I thank Eric M. Leeper for many helpful conversations.

¹Home prices, mortgage rates and income pulled from <https://fred.stlouisfed.org/>.

²CPI Inflation Calculator <https://www.bls.gov/>.

³Correlation is monthly observations of 30-Year Fixed Rate Mortgage and 10-Year Constant Maturity from 1990:1

us, correlation is not causation. But in this case, the economics are clear, causality runs from the 10-year yield to mortgage interest rates, not the other way around. If the interest rate on the 10-year Treasury increases, mortgage rates will increase; if the 10-year yield falls, mortgage rates will also fall. Of this, I am confident.

So, what determines the interest rate on a 10-year U.S. Treasury? This question is much more difficult to answer, however, the long-run foundational anchor of U.S. sovereign debt must be fiscal policy. There are three important considerations here:

First, in response to the Financial Crisis of 2008 and the Covid-19 Pandemic, the Federal Reserve engaged in a policy called quantitative easing that depressed the 10-year yield below market-based equilibrium. This diminished the sensitivity of long-dated maturities to fiscal policy over the last 15 years. These policies are currently being undone. As quantitative easing gives way to quantitative tightening, fiscal policy will once again take center stage in price discovery for the Treasury market.

Second, paying interest to bond holders or debt service is now the third largest expense of the federal government only behind Social Security and Medicare. Debt service will soon exceed one trillion dollars per year if it hasn't already. The CBO projects debt service to grow to 3.6% of GDP over the next decade, an all-time high.⁴ Bond traders, recently burned by unanticipated inflation to the tune of a record-breaking 46% decline in bond prices, are now much more leery of inflation-inducing fiscal expansions. When inflation is anticipated, higher rates of interest are required to compensate for the lost purchasing power. As debt service grows, it will crowd out other spending needs.

Finally, increases in government spending to support the economy during the Pandemic were on par with increases to finance World Wars I and II. Following the great wars, through a reduction in spending and increases in tax revenue, debt-GDP ratios gradually, yet substantially, declined. This is consistent with economic theory: shocks, like wars and Covid, should be smoothed over time. However, no such fiscal consolidation is currently on the horizon. Sizable deficits are projected for the foreseeable future. This will certainly put upward pressure on the 10-year Treasury yield.

When it comes to housing affordability, there aren't many things more important than mortgage rates. Given that mortgage rates track the value of U.S. debt very closely, fiscal policies initiated by this committee have a direct impact on housing costs. While other countries have struggled to reopen following the Pandemic, the strength of the U.S. economy has been on full display. This economic growth can and should be used to coordinate a well-thought out and gradual fiscal consolidation, consistent with optimal economic theory; such a consolidation would make housing more affordable.

to 2024:1. Data available from <https://fred.stlouisfed.org/>.

⁴CBO Publication 58946 <https://www.cbo.gov/publication/58946>.

Questions for the Record
from Senator Whitehouse
for Ms. Peggy Bailey
“A Blueprint for Prosperity: Expanding Housing Affordability”
January 31, 2024
Senate Budget Committee

Question #1: How does the high and growing cost of childcare affect families’ ability to buy a home or afford rent?

Often, childcare and housing costs are the two highest expenses families face and consume a large percentage of families’ incomes. Childcare is often necessary for parents to be able to further their education, work a full-time schedule or work at all if the child is too young for school. Therefore, high childcare costs, which are often highest when children and their parents are youngest, take away from what families can spend on rent and make it harder for families to save money to purchase a home. Helping low-income families afford childcare means that parents can work or go to school which can lead to increased income and ability to afford their rent, mortgage or save money to stabilize their financial futures.

Questions for the Record
from Senator Murray
for Ms. Peggy Bailey
“A Blueprint for Prosperity: Expanding Housing Affordability”
January 31, 2024
Senate Budget Committee

Question #1: Affordable housing is clearly a major avenue to preventing homelessness. But a massive driver of chronic adult homelessness is youth homelessness. Our failure to support communities, young people, and their families results in 4.2 million youth and young adults experiencing homelessness each year. In Washington state it is estimated that 13,000 young people under the age of 25 are currently unhoused or are experiencing housing instability. Data indicates that many of those young people will go on to experience chronic adult homelessness, but homelessness prevention efforts can have a significant positive impact on their trajectories. We're seeing a greater shift toward actually preventing youth homelessness through family and community-focused supports, better transitions from foster care and inpatient settings, and school-based efforts. Naturally, a family having a stable home is crucial for many of these approaches to be successful.

Could you discuss how this shift towards prevention of youth homelessness fits within the expansion of housing affordability you have discussed?

This shift is critical to the effort to end homelessness. The interventions that we know work for keeping people in stable housing can not only close the front door to homelessness but also be applied to helping people exiting homelessness therefore making that episode of being unhoused as brief as possible. So helping youth find housing, giving them rental subsidies through programs like the Fostering Youth Independence program, connecting them to community based health and social services, and providing financial coaching and support are all things that anyone with a low income struggling to afford housing and connect with services needs to either avoid or end their homelessness.

Questions for the Record
from Senator Johnson
for Ms. Peggy Bailey
“A Blueprint for Prosperity: Expanding Housing Affordability”
January 31, 2024
Senate Budget Committee

In a functioning market, when demand isn't being met, the market responds with increased supply. Right now, America's supply of housing isn't meeting the demand.

Question #1: What is preventing the housing market from effectively responding to the demand?

I can speak about some of what we're seeing in rental housing. First, it is important to understand that rental housing is coming online. Multifamily development starts have increased in recent years, so the market is responding to the deficit in rental housing. While starts declined in the face of supply challenges through August 2023, there has been a modest turnaround since, according to [Moody's Analytics Data](#).¹

However, the affordability issues in the housing market highlight the role government needs to play in order to help people meet their basic needs. Much of this new supply is being developed at the higher end of the rental market. This is partly due to the trend of stagnating/declining homeownership which leads to people with higher incomes staying in the rental market. At the lower end of the income spectrum, the market can't be expected to respond because there is no profit to be gained from serving this population, whose incomes are typically so low that they are not able to pay rent at a level that landlords would need even to cover maintenance and other basic operating cost. In the middle, the profit potential exists but it is less than what can be obtained in the higher end of the market so there is also a need for government to play a role. This is one reason the Low Income Housing Tax Credit (LIHTC) is important. Units in LIHTC properties are affordable for people with incomes generally between 50 – 80 percent of area median income which, at the higher end of this range, are typically households near the middle of the overall income spectrum and on the upper middle of the income range among renters.

So, this is a case where the market is responding very close to how we would expect the market to respond to a demand shortage. Government action is needed to help those where the profit potential of the market is limited or non-existent.

Question #2: Are demand-oriented proposals, such as vouchers, a solution or challenge to meeting supply side challenges?

Rental assistance works hand in hand with efforts to increase the housing stock. For people with low incomes, rent can't be low enough for them to afford and allow landlords to properly

¹ Moody's Analytics Economic Indicators, United States – Housing Starts: Multi-Family, December 31, 2023, <https://www.economy.com/united-states/housing-starts-multi-family>

maintain, operate or pay off debt for the property. This is not the potential tenants' or the landlords' fault. Families in this situation do not make enough money, either through their job or government benefits, to afford even the lowest rent. And we can't expect landlords to operate properties at a financial loss. Therefore, rental assistance for this population is the only way to ensure that families are stably housed and avoid homelessness.

Question for the Record
from Chairman Sheldon Whitehouse
for Mrs. Carol Ventura
“A Blueprint for Prosperity: Expanding Housing Affordability”
January 31, 2024
Senate Budget Committee

Question #1:

The American Rescue Plan sent money to states to help build our way out of the COVID recession. How did these State and Local Fiscal Recovery Funds help affordable housing production in Rhode Island?

Answer:

State and Local Fiscal Recovery Funds (SLFRF) have been particularly impactful because funding has allowed us to better leverage other resources, particularly federal Low Income Housing Tax Credits. Like every state, Rhode Island receives a limited amount of 9 percent Housing Credits which are extremely competitive and can generally finance about three affordable developments per year. We can also access 4 percent Housing Credits generated through tax exempt bond financing, but this requires significantly more gap financing which has been a real barrier to maximizing its utilization. With these new resources we have been able to significantly expand utilization of the Housing Credit- increasing from about 6 Housing Credit financed developments closing annually from 2015-2022 to 15 Housing Credit financed developments receiving preliminary approval in 2023.

Many projects have been financed with State Fiscal Recovery Funds, including Looking Upwards, development that is converting an old storage and commercial space into 12 affordable apartments, eight of which will be designated for individuals with intellectual or developmental disabilities who are at risk of homelessness.

Question #2:

I'm working on a bill with Reps. Panetta and Blumenauer that would create a refundable, advance-able tax credit of up to \$15,000 for first time homebuyers. How would this bill make home ownership more affordable and make the American dream more attainable for lower income Americans?

Answer:

As housing prices have increased along with mortgage interest rates, more and more Rhode Islanders are struggling to access and sustain housing they can afford. The biggest barrier to homeownership for first-time homebuyers in particular is often the down payment. That's why the \$30 million in ARPA funding the state has invested in downpayment assistance has been so important. The program provided \$17,500 in downpayment assistance to help about 1,500 first-time homebuyers purchase a home, over half of which were minority borrowers. Unfortunately, those resources have largely been expended. RIHousing continues to offer a \$10,000 down payment assistance program, but in the current market that is just not enough for many low-income buyers.

This bill would create a first-time homebuyer advanceable housing tax credit of up to \$15,000 for households earning up to 160% AMI (about \$140,000 in most of RI for a family of 3) to purchase a home at up to 120% of the area median purchase price (for RI in Dec 2023 that would be about \$512,400). Access to affordable housing is linked to increased economic mobility; this bill would allow lower income Americans to afford a home who have traditionally been shut out of the housing market. This would be immensely helpful in Rhode Island, especially to lower-income and first-time homebuyers who face financial barriers to purchasing a home.

Question #3

I am a proud co-sponsor of Senator Cantwell's Affordable Housing Credit Improvement Act, if this bill were to be passed, how would it help Rhode Island address its housing shortage?

Answer:

The most important way to address our housing affordability challenges is to increase production of homes that Rhode Islanders can afford. The Housing Credit is already the most important tool we have in Rhode Island and across the country to develop and preserve affordable rental housing. The Affordable Housing Credit Improvement Act (AHCIA) would strengthen the program to better address the growing need for affordable apartments. First, it would make a significant increase in the allocation of 9 percent Housing Credit authority. The 9 percent Credits are extremely competitive. In Rhode Island we can only finance about 3 developments per year using the 9 percent Credit and are usually oversubscribed by about \$4 in requests for every dollar of available resources. We could finance significantly more developments with this increased Credit allocation.

The bill would also lower the amount of tax-exempt multifamily housing bonds needed to finance developments using the 4 percent Housing Credit. To maximize the 4 percent Credit equity available, multifamily bonds must be used to cover at least 50 percent of the cost of the development. The Affordable Housing Credit Improvement Act would lower that threshold to 25 percent, freeing up tax exempt bond authority for other developments, while better lining up the amount of debt to a level that these projects can support. Together these two provisions alone are projected to support up to 4,500 additional affordable homes in Rhode Island over a ten-year period.

With the passage of this bill, we could finance more developments like a development Frenchtown Rd. in East Greenwich where we recently celebrated the groundbreaking. This development is using both 9 percent and 4 percent Housing Credits to finance the development of 63 apartments, of which 24 will be affordable to tenants earning no more than 30 percent of area median income thanks to Section 811 vouchers provided by Rhode Island Housing and Project Based Vouchers provided by the local public housing authority.

Question #4

The American Rescue Plan established funds for rental and homeowner assistance, to be administered by the states. What did these programs accomplish in Rhode Island?

Answer:

RIHousing was proud to administer over \$279 million in Emergency Rental Assistance and \$50 million through the Homeowner Assistance Fund. Through the ERA program we were able to provide rental assistance needed to keep over 34,000 households in their apartments. The households assisted were overwhelmingly very low-income with 89% earning less than 50% of Area Median Income (\$46,100 for a family of three in most parts of the state).

Working with Rhode Island Legal Services, the Center for Justice and other community partners we were able to provide eviction prevention services to renters right in the courthouses. Tenants facing eviction received help submitting an application for emergency rental assistance as well as legal representation during the eviction proceedings.

The Homeowner Assistance Fund played a similarly important role for homeowners facing pandemic related financial hardships. To date, Rhode Island Housing has provided \$45 million in HAF-RI assistance to keep over 1,800 Rhode Island homeowners in their homes. Participating homeowners were also heavily low and moderate income with 80% earning less than 80% of Area Median Income (\$73,750 for a family of three in most parts of the state).

Question #5

Is the collaboration between state and local governments and the private sector alone enough to meet the moment and address nationwide housing concerns? Or is federal action needed to effectively tackle this issue?

Answer:

We recognize that increasing the supply of affordable housing and addressing housing concerns will take a whole range of strategies. Some of those strategies have to include increased investment. In just the past 4 years the cost to develop affordable housing in Rhode Island has increased by about 30%. We are seeing many projects that received financing in earlier funding cycles returning to close financing gaps caused by those increased costs. The programs we typically rely on to finance that development aren't currently even keeping pace with those increased costs, to say nothing about supporting the development of more homes. But that's only part of the solution.

Collaboration between state and local governments and the private sector is essential to address the housing crisis we are experiencing, but federal action is also needed to effectively tackle this issue. We are lucky in Rhode Island to have a Governor and leadership in the General Assembly that have made this issue a top priority. Just last year, a package of thirteen bills spearheaded by House Speaker Shekarchi were passed which made significant changes to land use and zoning laws to help streamline the development process and facilitate the development of affordable homes. But while addressing land use and regulatory barriers is an important strategy to reduce housing costs and increase production, it is not enough. On its own, the housing market is not going to be able to serve our lower income households. It costs too much to build housing to rent it at rates affordable to low-income households without some kind of development or operating

subsidy. Federal resources and funding are needed to support increase in production and bridging the gap between the cost to operate housing and the rent that low-income and very low-income households can afford to pay.

The investments that Congress has made in housing and homeless programs have been vital to helping states increase the supply of affordable housing and increasing access to affordable housing for our most vulnerable populations. But the continued escalation in housing prices and the housing affordability crisis facing a growing number of renters and homeowners is proof that more needs to be done.

Question for the Record
from Senator Charles E. Grassley
for Mrs. Carol Ventura
“A Blueprint for Prosperity: Expanding Housing Affordability”
January 31, 2024
Senate Budget Committee

Question:

Mrs. Ventura,

In response to Chairman Whitehouse’s question at the hearing, you suggested Rhode Island has not experienced the types of waste, fraud, and abuse problems that infect public housing in places such as Chicago, Detroit, and the District of Columbia.

However, several investigations have been conducted on many public housing entities in Rhode Island dating back over 10 years.¹ This includes problems in Rhode Island City, Rhode Island Housing, Woonsocket Housing Authority, RIHousing (your organization), and Providence Housing Authority.

For decades, I’ve conducted oversight of the U.S. Department of Housing and Urban Development (HUD) and local housing agencies, exposing widespread waste, fraud, and abuse. I found that HUD does very little, if any, oversight of the housing authorities, including those in Rhode Island. I called for an investigation into Providence Housing Authority in 2012 due to some very troubling allegations.²

- **Were you familiar with the referenced problems when you gave your answer?**
- **Please discuss ways you have tried to limit waste, fraud, and abuse in your time at RIHousing and any experiences you have had with entities in the Rhode Island public housing space?**

¹ providencejournal.com/story/news/politics/county/2014/03/04/20140303-r-i-housing-granted-extension-to-respond-to-whistleblower-lawsuit-ece/35362108007/; golocalprov.com/news/this-ri-city-is-being-sued-by-feds-for-selling-residence-ultimately-purchase-valleybreeze.com/news/wha-fires-executive-director-after-contested-investigation/article_8a28e862-ba5e-11ec-b8c0-37ae59f917c3.html; providencejournal.com/story/news/politics/county/2014/03/02/20140302-after-troubled-period-providence-housing-authority-is-rebounding-ece/35361449007/; pbn.com/rihousing-customers-notified-of-data-breach/; golocalprov.com/news/u.s.-senator-calls-for-investigation-into-providence-housing-authority.

² grassley.senate.gov/news/news-releases/grassley-seeks-full-transparency-public-housing-authority-salaries; golocalprov.com/news/u.s.-senator-calls-for-investigation-into-providence-housing-authority.

Answer:

My response at the hearing was intended to reflect that I was not aware of the specific kinds of excess and abuse described by Mr. Slover in his testimony. It was certainly not my intent to imply that no Rhode Island PHAs had ever been cited for operational or programmatic issues. RIHousing takes very seriously any instances of waste, fraud or abuse in the programs we administer. In every instance where issues may be identified, we work hard to implement policies and procedures to address those issues and prevent similar problems from occurring in the future. During my time as Executive Director, we have worked to establish robust internal controls to help prevent and detect any irregularities. The organization has regular audits conducted by outside auditors to identify any inaccuracy in our financial reporting or compliance issues. RIHousing's audited financial statements can be found on our website going back over the past decade. Our most recent audit by Rhode Island's Office of Management and Budget showed us to be in compliance with the Quasi-Public Corporations Accountability and the Transparency Act. We have a team of quality control professionals working full-time to evaluate performance. Program staff also receive comprehensive training on compliance with regulations and internal policies, and our internal Compliance Committee meets periodically to review important policy developments, audits, reviews, and program needs. All employees must comply with all applicable laws and regulations in fulfilling their responsibilities and are required to report any inappropriate conduct. We have a detailed whistleblower policy that lays out a mechanism to allow any employee to report violations of law or policy without fear of retaliation. The organization also has a detailed ethics policy that every new employee receives and signs as part of their onboarding. In some cases, the policy imposes greater obligations than the State of Rhode Island Code of Ethics. By implementing and strengthening these measures, RIHousing has worked to mitigate the risks of waste, fraud, and abuse in our programs and operation.

RIHousing is the statewide public housing authority for the State of Rhode Island. We interact with other PHAs in the state primarily in relation to the implementation of the federal rental assistance programs we administer and through the financing of affordable housing development and preservation with public housing authorities engaged in that work.

Question for the Record
 from Senator Johnson
 for Mrs. Carol Ventura
 “A Blueprint for Prosperity: Expanding Housing Affordability”
 January 31, 2024
 Senate Budget Committee

Question:

In a functioning market, when demand isn't being met, the market responds with increased supply. Right now, America's supply of housing isn't meeting the demand.

- **What is preventing the housing market from effectively responding to the demand?**
- **Are demand-oriented proposals, such as vouchers, a solution or challenge to meeting supply side challenges?**

Answer:

In an ideally functioning market, demand and supply are balanced; as demand increases, supply responds by increasing in kind. Unfortunately, in certain situations, markets fail because economic forces interfere with this balance. Unlike the luxury housing market, affordable housing is a prime example of a market failure. The reason for the imbalance is that it simply costs too much to build housing that low-income households can reasonably afford to rent absent tax incentives or government subsidies. No developer will build a property if they expect that their rental income will be insufficient to cover the cost of their debt service, let alone their operating expenses.

A market failure is best addressed by a market-based solution leveraging both the private and public sectors in the response. Fortunately, we have such a solution for the production of affordable rental housing. The Low-Income Housing Tax Credit (Housing Credit) is a tested public-private partnership that combines state Housing Credit Agencies' understanding of their local markets, sophisticated finance and underwriting capacity, and strict compliance enforcement with the private sector's business acumen, due diligence, and asset management abilities, while minimizing Federal overreach and red tape bureaucracy.

The result has been the production of over 3.8 million affordable rental homes for low-income Americans and an outstanding performance track record according to commonly used real estate metrics. The cumulative foreclosure rate of Housing Credit properties over the program's near 40-year tenure is still only half of 1 percent. State agencies underwrite Housing Credit properties with slim profit margins so as not to over-subsidize developments while ensuring properties' financial health over the long term.

Demand-side programs, such as Housing Choice Vouchers, and supply side programs, like the Housing Credit play different and complementary roles in meeting our nation's affordable housing needs. I strongly support rental assistance, particularly for the poorest households, however rental assistance alone does not incentivize the private sector to build housing that's affordable to low-income households.

Rental assistance is best used to make existing housing and newly produced developments more affordable for those with the lowest incomes. Supply side programs are critical to producing housing in the areas where it is most needed areas that are experiencing job growth where there are quality schools and opportunities. Moreover, rental assistance cannot preserve existing affordable housing or revitalize communities unless it is used together with supply side programs.



Office of
**COMMISSIONER
KEVIN L. BOYCE**

373 S. High Street, 26th Floor
Columbus, Ohio 43215

February 8, 2024

Questions for the Record
from Chairman Sheldon Whitehouse
To: Mr. Kevin Boyce
“A Blueprint for Prosperity: Expanding Housing Affordability”
January 31, 2024
Senate Budget Committee

Question #1:

Is the collaboration between state and local governments and the private sector alone enough to meet the moment and address nationwide housing concerns? Or is federal action needed to effectively tackle this issue?

Answer:

Thank you for the question, Mr. Chairman. Simply put, no. While state and local governments, along with the private sector, play a significant role in shaping the housing landscape in communities across the country, there remain essential roles that the federal government must play to comprehensively address the housing crisis. These include:

National Scope, Coordination and Thought Leadership:

Housing markets are interconnected, and issues such as housing affordability, availability of rental units, and homelessness can have spillover effects across state and regional boundaries, thus requiring a coordinated effort at the federal level. The federal government, with its broader perspective, can have a national housing strategy, where they craft policies and allocate resources that address the crisis on a national, coordinated scale. Through the strategy, the federal government can play a convening role, that could help coordinate policies and funding streams across all levels of government, and sectors, to avoid fragmented solutions and ensure a more effective response.

Monetary and Fiscal Policy:

Federal monetary and fiscal policies play significant roles in the availability and affordability of safe and decent housing. Monetary policy actions, such as adjustments to the federal funds rate, directly impact mortgage rates. When the central bank lowers interest rates, borrowing costs for homebuyers decrease, making homeownership accessible for more Americans. In addition to its impact on mortgage rates, our monetary policy influences the rate of inflation, which has a direct impact on the cost of construction and rehabilitation of housing units.

From a fiscal policy standpoint, using the tax code is one of the most effective ways to incentivize developers to build affordable housing units. For example, without the Low-Income Housing Tax Credit (LIHTC), which is the largest source of affordable housing financing in the United States, we would have almost 4 million fewer affordable housing units in stock today. In addition to tax incentives, the federal government, through various agencies including the Department of Housing and Urban Development, invest billions of dollars annually through grants, loans, loan guarantees and other funding streams, that would otherwise not be available, for the construction and rehabilitation of housing units. This revenue source for local governments is essential to bridge the gap between construction costs and affordable attainment.



Furthermore, in addition to the direct housing investments and financial instruments through entities like Fannie Mae, the federal government plays an inextricable role in ensuring communities are sustainable, by making investments in transportation and infrastructure. Adequate water, sewage, and electricity, in addition to efficient public transportation, directly contribute to the enhancement of affordable housing.

Through these various levers, the federal government has the required financial capacity to invest in affordable housing initiatives to help bridge the gap between market forces and housing affordability for low and moderate-income individuals and families.

Equity and Fairness:

Housing disparities often disproportionately affect marginalized communities, making the attainment of safe, decent, and affordable housing even more difficult. Federal intervention ensures that everyone has a fair shot at safe and stable housing. By promoting fair housing practices and combating discrimination, the federal government plays a vital role in creating a more equitable society.

Additionally, through the various agencies, the federal government has the expertise and scale to ensure all populations have access to safe housing through targeted programming. For example, the Housing Choice Voucher Program, the HOME Investment Partnerships Program, and the Supportive Housing for the Elderly and Persons with Disabilities programs to assist low-income families, seniors, and individuals with disabilities in accessing affordable housing and supportive services.

Disaster Preparedness, Response and Market Stabilization:

In times of crisis, such as natural disasters or economic downturns, the federal government plays a vital role in the response. It can swiftly mobilize resources, provide emergency housing, and support affected communities. For example, policies such as mortgage forbearance programs, foreclosure prevention initiatives, and temporary housing assistance programs help mitigate the impact of economic shocks on homeowners, renters, and the broader housing market. As for the long-term response, the federal government has the scale, both in resources and capacity, to help communities rebuild, whereas they would not be able to otherwise.

Further, through trade and tariff policy, it has the power to address complex problems within the supply chain, which can limit materials and drive-up construction costs.

Research and Policy Innovation:

The federal government, through its various agencies, can conduct research and analyze trends related to housing. This research provides valuable insights into the root causes of housing challenges, identifies emerging trends and disparities, and informs evidence-based policy decisions and interventions at the federal, state, and local levels.

In addition to research and data analysis, the federal government plays a critical role in the creation, modernization, and administration of current federal programs. As I laid out in my written testimony, action from our regulatory and legislative bodies have trailed the rapid rate of change that takes place in the market, and our current housing situation is no different. Most of the significant federal housing programs, that localities rely on, have not been updated in decades, leaving local policymakers with outdated tools to address the rapidly evolving and unique needs within their county. To fully maximize the federal government's commitment to alleviating the housing crisis, Congress and the Administration must modernize the current programs to become a more efficient tool.

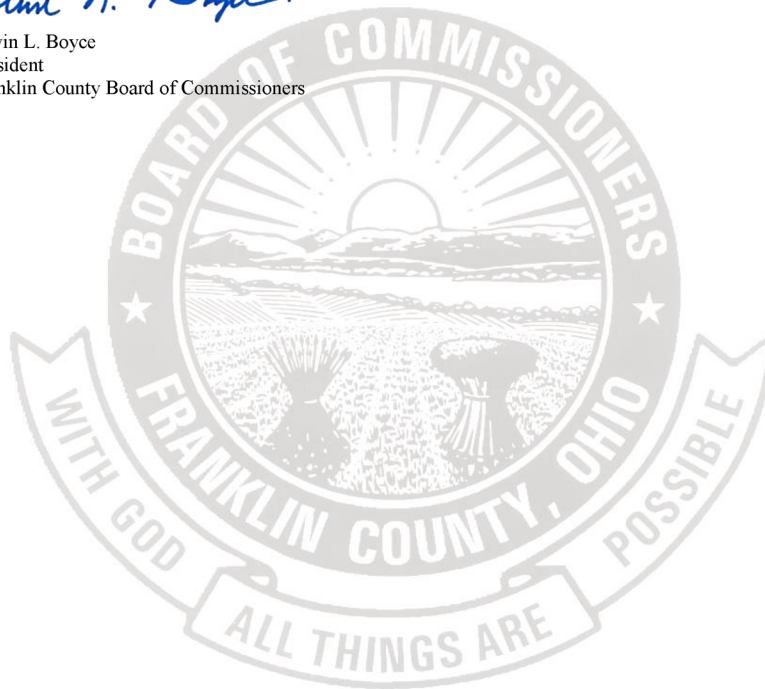
In Summary:



The federal involvement is an essential component in the effort to address, and solve, the current housing crisis. Our system of federalism recognizes that local communities understand their unique needs best, and the federal government through its various levers should empower local governments, nonprofits, and community organizations to implement tailored solutions while providing necessary support.

A handwritten signature in blue ink that reads "Kevin L. Boyce".

Kevin L. Boyce
President
Franklin County Board of Commissioners





Office of
**COMMISSIONER
 KEVIN L. BOYCE**
 373 S. High Street, 26th Floor
 Columbus, Ohio 43215

February 8, 2024

Questions for the Record
 from Senator Johnson
 for the witnesses
 "A Blueprint for Prosperity: Expanding Housing Affordability"
 February 1, 2024
 Senate Budget Committee

Question 1 for the Witnesses

In a functioning market, when demand isn't being met, the market responds with increased supply. Right now, America's supply of housing isn't meeting the demand.

What is preventing the housing market from effectively responding to the demand?

Thank you for the question, Senator. Several factors can prevent the housing market from effectively responding to demand:

Regulatory Barriers:

At the local level, limited availability of land, zoning regulations and building codes can add to the constraint of the housing supply, though it's not the main factor, and lead to the mismatch in supply versus demand. Recognizing that counties often play a role in these issues, counties are constantly assessing the methods and regulatory procedures related to zoning, subdivision controls, and environmental standards, to ensure that they address the current needs facing our community and that they are not prohibitive to accommodating growth.

Programs that utilize multiple funding streams (local, state and federal), have an added complexity when it comes to the regulatory burden that may slow down the construction of new units. As I stated in my written testimony, coming with each funding stream has its own set of compliance and reporting standards, submission deadlines and other requirements. Ensuring projects remain compliant comes at a considerable administrative cost and typically drags out project completion timelines. **Greater alignment of federal standards between agencies (labor, procurement, environmental) would not only save time but administrative costs associated with projects supported by multiple federal entities.** Furthermore, the reduction in costs associated with the administration of a project would allow more resources to be allocated directly to the housing initiatives.

Cost of Construction:

The cost of land acquisition, labor and materials can make construction expensive, especially in high-demand markets. For example, during the pandemic, lumber prices alone increased more than 150 percent. Similar to how the cost associated with new construction can be prohibitive to increasing supply, so is the rising cost of homeowners insurance in many communities across the country. With companies raising premiums double digits, or entirely pulling out of markets, the incentive to build within those markets is dwindling.

Labor Shortage:



A significant factor contributing to the lack of new supply is the shortage of available construction workers, particularly in rural areas. A 2020 survey conducted by the Associated General Contractors, found that 81 percent of the construction companies surveyed cited labor shortage being a major reason leading to the current housing supply shortage.

Underbuilding of Entry-Level Homes:

There has been a long-term decline in the building of entry-level homes in the United States. According to U.S. Census Bureau data, during the late 1970s, the construction of entry-level homes averaged around 420,000 units per year, or around 35 percent of all new homes constructed in the given year. In 2020, the number is closer to 150,000 or 15 percent of all new homes constructed. This underbuilding has caused entry-level prices to rapidly rise, triggering further affordability issues.

Are demand-oriented proposals, such as vouchers, a solution or challenge to meeting supply side challenges?

I wouldn't characterize them as either a solution or challenge in the context of addressing the supply side challenges. The current scope of these programs are a direct byproduct of our failure to build an adequate level of housing. Because of the under-supply, we are seeing high rates of homelessness, increasing home values and monthly rents, while wage growth remains largely stagnant, forcing more and more Americans to rely on these programs to remain adequately housed.

A handwritten signature in blue ink that reads "Kevin L. Boyce". The signature is fluid and cursive, written over a large, faint background seal of Franklin County, Ohio.

Kevin L. Boyce
President
Franklin County Board of Commissioners



Questions for the Record
from Chairman Sheldon Whitehouse
To: Mr. Bill Slover
“A Blueprint for Prosperity: Expanding Housing Affordability”
January 31, 2024
Senate Budget Committee

Question #1:

In your testimony, you give general recommendations to make sure that Public Housing Authorities (PHAs) avoid the issues found with the DC Housing Authority Board. Could you provide more detailed proposals on how to reduce fraud and abuse in Public Housing Authorities?

Answer: I appreciate the opportunity to provide more detail on the three reform recommendations, that I have listed again below, that I made in my submitted written testimony.

1. **Revamp its oversight of PHAs.** Greater accountability for tracking, reporting, and achieving results must be in place before progress can be made - both here in the nation's capital and in other cities.
2. **Change governance structure.** PHA governing bodies should be *held directly accountable to HUD* rather than local municipal leadership. As Senator Grassley, has pointed out repeatedly PHAs rely too heavily on local boards and government officials to be good stewards of billions of taxpayers dollars, which is no way to exercise a fiduciary obligation to public dollars.
3. **Demand qualified leaders.** PHAs are effectively large real estate businesses, and they need the appropriate expertise to function as needed. This may sound elementary, but it's true. Until PHAs can execute the basic functions of managing properties, setting rental rates, and overseeing a waiting list, they will continue to stumble. PHAs are operating businesses and need to be run as such.

To begin, the Federal Government must acknowledge its status as the largest owner/operator of residential real estate in the country and recognize HUD's oversight responsibility over 3,400 separate operating units, which collectively spend close to \$50 billion on subsidized housing. To effectively manage an enterprise of this magnitude, a tight business plan is essential as well as incorporating stringent accountability metrics, clear performance indicators, distinct deliverables, well-defined governance and oversight structures, and, most importantly, the ability and willingness to intervene decisively when needed. It appears that HUD has expanded

and evolved without adequate checks and balances. There has been a lack of effort to establish a process for driving efficiency and demanding performance amidst the agency's ever-changing leadership. Consequently, a massive funding mechanism has been established, distributing funds to its 3,400 operating units without setting expectations for the return on investment. This lack of oversight fosters waste, fraud, and abuse, exemplified by the recent revelation of extensive fraud at NYCHA, suggesting that DCHA's situation is not unique but rather indicative of a broader trend.

The key to reducing waste, fraud, and abuse is to completely overhaul the operations of Public Housing Authorities (PHA's) and manage them more like businesses. There's no need to reinvent the wheel; there are numerous examples of well-run businesses that HUD could emulate. Ironically, when you read the HUD report on the District of Columbia Housing Authority (DCHA), many of the failures attributed to DCHA reflect the shortcomings of HUD itself. Perhaps HUD should consider implementing many of these recommendations internally.

HUD needs to completely restructure how it runs PHA's starting with the Governance structure. PHA boards should report to and be held accountable to HUD and HUD alone. HUD then needs to define its mission of providing 0-30% AMI housing and hold those Boards accountable to meeting that mission. Until that happens agencies like DCHA and NYCHA will continue to underperform and provide opportunity for continued waste fraud and abuse. The result of which is less and less deeply subsidized housing.

I would welcome the opportunity to discuss this in further detail.

Questions for the Record
from Senator Charles E. Grassley
for Mr. Bill Slover
“A Blueprint for Prosperity: Expanding Housing Affordability”
January 31, 2024
Senate Budget Committee

Question #1
Mr. Slover,

I spent years uncovering waste, fraud, and abuse of federal housing programs. This includes efforts to cap the federal dollars the U.S. Department of Housing and Urban Development (HUD) can use towards funding executive compensation at housing authorities to protect HUD from recklessly spending taxpayers’ money. I’ve found that, too often, the government overpays for poorly executed projects. All this while housing authorities get away with spending on lavish parties and expensive travel.

- **Has D.C. Housing Authority had similar issues related to bloated executive compensation?**
- **Did the D.C. Mayor attempt to cover up the waste, fraud, and abuse of the D.C. Housing Authority?**
- **Is there anyone left on the D.C. Housing Authority board diligently working to shine a spotlight on the D.C. Housing Authority’s continued waste of federal dollars?**

Answer:

1. The salary of the DC Housing Authority Executive Director exceeds the limits set by HUD, as indicated in the September 2022 HUD report. The former Executive Director received a base salary of \$275,000 and a \$41,000 bonus, which was paid out. The current Executive Director's salary is \$325,000, likely with a similar bonus structure. DCHA justifies these salaries by utilizing nonfederal funds, possibly facilitated by its "high performing" designation by HUD, despite publicly disclosed issues. Moreover, DCHA employs over 700 individuals and has neglected organizational reviews to assess staffing adequacy for over a decade.

From the HUD Report:

Brenda Donald was hired as the Interim Executive Director of the DCHA in June 2021. She was appointed to the position permanently in August 2021. Ms. Donald has a two-year contract with DCHA with a current annual salary of \$275,000. This salary exceeds HUD’s salary cap; however, DCHA utilizes nonfederal funds to pay the Executive Director’s salary. Before her employment at DCHA, Ms. Donald served in various administrative positions in D.C. Government including serving three times as Deputy Mayor and in Child Welfare. Her background is in Human Services, but Ms. Donald has no experience in property development, property management or managing federal housing programs.

From my perspective, the Mayor, through her majority control of the board members, wields significant influence over the agency's operations. She successfully appointed Brenda Donald, who lacks housing experience and was previously a member of her Senior Team, as the Executive Director. This move solidified her control over the agency.

The HUD report highlighted several recommendations regarding the Executive Director's capabilities, as summarized below:

Ms. Donald was not aware of the poor Public Housing Assessment Scores (PHAS) which would have resulted in a Troubled PHAS designation if DCHA was not a MTW Demonstration participant

Recommendations

- *Training for the Executive Director to develop capacity in critical PHA functions including the overall role of the Executive Director and the Board, procurement, PH and HCV program operations, financial management, HUD policies, and HUD reporting requirements and systems. HUD's Lead the Way Training is available to assist in developing this capacity;*
- *Monitor executive team and ensure detailed reports on financial condition, public housing vacancies, HCV utilization, outstanding work orders, tenant accounts receivables, procurement actions and status of development projects are submitted weekly;*
- *The Executive Director should evaluate DCHA's current organizational structure the staff's capacity to perform assigned functions;*
- *The Executive Director should make changes to the existing organizational structure and develop and implement any staff training needed;*
- *The Executive Director should develop a document with measurable performance goals for each member of the executive team and determine a regular schedule for reviewing their performance against these goals;*
- *Develop a regular meeting schedule with Resident Leaders and the Resident Advisory Board to share updates and discuss issues; and*
- *Provide a monthly report to the Board on key performance indicators including financial condition, procurement, repositioning, capital improvements, occupancy, rent collection, lease enforcement activity, hiring and HCV utilization.*

Once the press began scrutinizing the agency more closely and the HUD report was released, the Mayor, with the approval of the City Council, removed all independent voices from the board. She proceeded to appoint new members entirely selected by her, while retaining the Executive Director without any public input or hearings. This maneuver could be interpreted as an attempt to conceal the agency's shortcomings.

2. The current board is made up entirely of commissioners appointed by the Mayor. All Independent and elected seats were removed through emergency actions initiated by the Mayor and approved by the city Council.

Question #2

Mr. Slover,

Following your efforts, HUD issued a 72 page report detailing the many deficiencies and abuses of the D.C. Housing Authority.

- **What problems did the report omit that the public deserves to know?**
- **What additional improvements or reforms would you recommend to address these and other problems you've identified?**

Answer:

1. The HUD report was viewed by many as a clear indication that the agency should be placed under receivership. It revealed that the agency was failing on all major metrics used to measure a Public Housing Authority's performance, despite maintaining the MTW (High Performing) designation. However, from my perspective, the HUD report only scratched the surface of what is truly happening at the agency. While the report did not cover a multitude of issues, obtaining a list of audits conducted by the internal auditor prior to the report's issuance would provide a clearer picture of what was omitted. One glaring omission from the report is the Chairman's resignation and the associated issues. There were two contracts in question involving the Chairman: one valued at around \$300,000 and another a multi-million dollar contract. HUD only addressed issues pertaining to the \$300,000 contract, completely overlooking the larger contract. Despite the report being described as 'blistering,' it has resulted in minimal changes, particularly in addressing the significant expenditure on the HCVP. I reiterate the significance of this line from the report.

Ms. Donald was not aware of the poor Public Housing Assessment Scores (PHAS) which would have resulted in a Troubled PHAS designation if DCHA was not a MTW Demonstration participant

I would reiterate that those metrics have yet to show improvement, despite nearly two years passing since HUD conducted their review. The crux of the matter is that while the report issued by HUD, in my view, only scratches the surface of DCHA's issues, it should have prompted substantial intervention or even a complete takeover by HUD. However, it appears that HUD has taken minimal to no action that has led to tangible corrective measures. The question remains: why?"

2. HUD doesn't hold DCHA accountable to the money they provide the agency and has shown no will to intervene even given all the mismanagement uncovered by their own review. Four simple things to reform efforts to start with would be:
 1. Create performance goals that are measurable
 2. Have regular reviews to determine performance against those goals
 3. Require detailed reporting on budget, financial condition, PHA metrics, and operating performances.
 4. Be willing and able to intervene at appropriate levels when needed

While these may seem like basic elements to oversight of any business, I would offer that DCHA's current condition shows that not even these basic accountability elements are in place now. I believe given that DCHA has not moved quickly enough to reform on its own and HUD has shown no will to force that reform, that the only alternative to get reform started is to put the agency into some form of Receivership as soon as is possible.

Questions for the
Record from Senator
Johnson To: Mr. Bill Slover
"A Blueprint for Prosperity: Expanding Housing
Affordability"
January 31, 2024
Senate Budget Committee

Question #1

In a functioning market, when demand isn't being met, the market responds with increased supply. Right now, America's supply of housing isn't meeting the demand.

What is preventing the housing market from effectively responding to demand?

1. One significant challenge in effectively addressing the demand for affordable housing lies in how developers are compensated. In a market-rate project, developers are highly motivated to minimize costs, as lower construction expenses yield higher returns upon future sale or recapitalization. However, in affordable housing developments, the incentive structure for developers is reversed. Here, increased spending on construction translates to higher fees for developers, particularly considering that many affordable housing projects face limitations on property sales. Consequently, developers aim to maximize profits during the construction phase, driving up costs per square foot and reducing overall unit production yield. As highlighted during the hearing, the cost of developing affordable housing is notably higher than market-rate developments due to the intricacies of subsidy sources. These are a few reasons why demand is hard to meet.

Are demand-oriented proposals, such as vouchers, a solution or challenge to meeting supply side challenges?

1. I believe that many of the government subsidy solutions have the unintended consequences of negatively impacting the organically created unsubsidized existing affordable housing stock. As is evidenced in Washington, DC, high voucher payment standards have attracted developers to target buildings that can be repositioned to maximize the spread between the true market rate and what the voucher market rate is. The effect is twofold: The voucher program spends more money to house the same number of people and non-subsidized affordable units are removed from the marketplace.
2. I think also it is important to state that the voucher program does not provide "affordable housing" to anyone. What is provided is subsidized housing, not affordable housing. This is a very important distinction. We toss the term affordable housing around, but rarely is anyone ever talking about actual affordable housing, which to me is housing that can be afforded by the tenant or purchaser without Government Subsidy. We need to start referring correctly to what we are talking about.

Question #2

Federal housing policy is massive in size and complex in scope. We spend billions of dollars on various agency programs and housing tax subsidies, while also assuming risk via government loan guarantees. During the hearing, we heard calls for a substantial expansion of federal spending in response to affordable housing issues.

What Impact would an increase in federal funding have on the District of Columbia's housing stock and the performance of housing authorities more broadly?

Answer: My experience with DHCA and other agency that are tasked with managing taxpayers dollars to create and preserve housing is that they are for the most part poorly managed enterprises. A combination of lack of focus or understanding of their mission, lack of accountability, lack of subject matter expertise, and a lack of following basic business practices has resulted in such underperformance that it is impossible to say that any amount of additional money will result in a better outcome. Instead the focus at this point should be to look across all housing subsidy sources and providers and begin to develop a structure that holds accountable the receipts of funds and takes into account all subsidy sources to make sure that we are maximizing yields on all fronts. In short the Federal Government needs to start treating PHA's like the operating business's they are by putting in a structure that will maximize yield and minimize cost. Until this is done it is impossible to measure the impact of any increased funding.

What are examples of unintended consequences from housing policies in the DC market?

Answer:

1. The way DCHA runs its HCVP has resulted in the loss of organically affordable housing due to developers buying buildings with the sole goal of replacing existing tenancy with voucher holders based on the high payment standard being used. Additionally, flooding the market with high voucher rents has the potential to increase rents across the board. Below are two recent articles detailing the impacts of the program.

<https://www.washingtonpost.com/dc-md-va/2024/01/23/hud-investigates-dc-landlords-vouchers/>

<https://washingtoncitypaper.com/article/662516/d-c-housing-authoritys-rent-reasonableness-tool-is-susceptible-to-fake-online-ads-leading-to-inflated-voucher-payments/>

Like the HCVP, many subsidy programs suffer from the same two issues, a lack of coordination and poor execution. Good intentions and desired results don't translate into success without great execution, strict coordination, and accountability to performance. When you have multiple programs with the same goals, they need to be highly coordinated so that all efforts can achieve maximum yield. When you don't have coordination and don't study the impact on both the affordable and the broader

market then you run a high risk of unintended results. Subsidies provide a competitive advantage in the marketplace which in turn can drive others out of a marketplace. A marketplace without competition is often less efficient, which translate into a lower yield. This is yet another unintended result.

1. It is widely accepted that building “affordable” housing is considerably more expensive than market rate housing. While there are many contributing factors to this, they all center on high soft costs at every phase of the project. One of the big contributors to soft costs is the complexity of assembling a capital stack full of subsidies. The government has made their programs so complicated to navigate that it adds significant cost which again reduces the amount of housing produced. Resulting in an unintended consequence.


Charles E. Grassley
United States Senator

Questions for the Record
from Senator Charles E. Grassley
for Dr. Todd Walker
“A Blueprint for Prosperity: Expanding Housing Affordability”
January 31, 2024
Senate Budget Committee

Question #1

Dr. Walker,

You mentioned why mortgage rates are important to housing affordability and that U.S. fiscal policies have a direct influence on mortgage rates.

- **Why should renters care about the effect of our unsustainable fiscal policies on interest rates given they do not need to worry about servicing mortgage payments?**

Answer: First, let me thank you again for the invitation to testify on such an important topic. It was an honor.

Renters should care about the effect of the unsustainable fiscal policies on interest rates despite not needing to service mortgage payments because the cost to rent a home cannot deviate too far from the price to purchase a home, which, of course, depends critically on mortgage rates. The causal links are very clear: fiscal policy impacts interest paid on U.S. sovereign debt, which directly influences mortgage rates that, in turn, alter housing prices and rents. While house prices and rents can deviate over a short period of time, these prices converge over periods longer than three to five years.

Perhaps more importantly, I believe that our current fiscal position and projections are much more dire than at any time in modern history. If current spending / revenue projections are realized, it could have deleterious consequences for all aspects of the economy, including but not limited to the cost to purchase and rent a home.

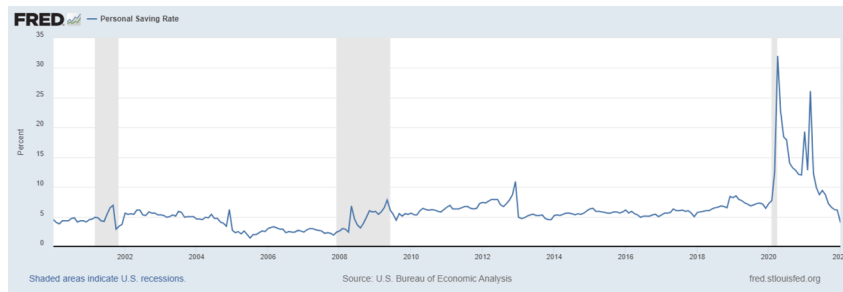
Question #2

Dr. Walker,

During the hearing, we heard calls from Ms. Peggy Bailey to continue one-time COVID-related spending programs as an ongoing part of our federal housing policy. You mentioned the need to rein in spending and called for a well-thought out fiscal consolidation.

- **Would continuing these one-time spending programs that were intended to combat the potential COVID-related effects on housing be a prudent component of the fiscal consolidation you propose?**

Answer: I do not support continuing the one-time spending programs associated with the pandemic. An important consideration here---that I did not touch on during my testimony due to time constraints---is that fiscal policies implemented during the pandemic contributed significantly to the increase in inflation. The figure below plots the personal savings rate. When the economy shutdown, naturally personal savings rates spiked well beyond the long-run average of roughly 5%. The three spikes occurred in April of 2020, January of 2021 and March of 2021; not coincidentally, the relief checks were issued March of 2020, December of 2020 and March of 2021. The decline in personal savings rates following the spikes meant that households were consuming. The stimulus checks did exactly what they were meant to do, stimulate, but prodding an economy with tremendous pent-up demand led to substantial inflation.



Optimal economic policy unambiguously points toward a fiscal consolidation to finance the borrowing associated with the one-time Covid-19 fiscal stimulus. This will not only allow the federal government to better address its longer-term fiscal challenges but will also help bring down inflation. Current projected spending, without proportional increases in revenues, will make it more challenging for the Federal Reserve to achieve its 2% inflation target. The U.S. economy continues to outperform, providing the perfect opportunity to conduct such a consolidation with minimal impact.

In my response to Senator Johnson, I discuss directed technological change and the importance of the supply of more affordable housing. Excellent academic work points to regulatory challenges that serve to restrict the supply of these homes as the primary market deficiency. Proposals, like vouchers, would have several unintended consequences like increasing the price of these homes, displacing marginal families that do not qualify for the voucher program, and providing incentives to qualify for vouchers. Policies that serve to address the root cause of the problem, which I believe to be constraints on supply, would be much more effective. Demand-side policies to address supply-side issues always fail to meet objectives. Moreover, I believe local municipalities are better positioned to address these supply-side issues, not the federal government.

Questions for the Record
from Senator Johnson
for Dr. Todd B. Walker*

"A Blueprint for Prosperity: Expanding Housing Affordability"
January 31, 2024
Senate Budget Committee

Question: In a functioning market, when demand isn't being met, the market responds with increased supply. Right now, America's supply of housing isn't meeting the demand.

- What is preventing the housing market from effectively responding to the demand?
- Are demand-oriented proposals, such as vouchers, a solution or challenge to meeting supply side challenges?

Answer:

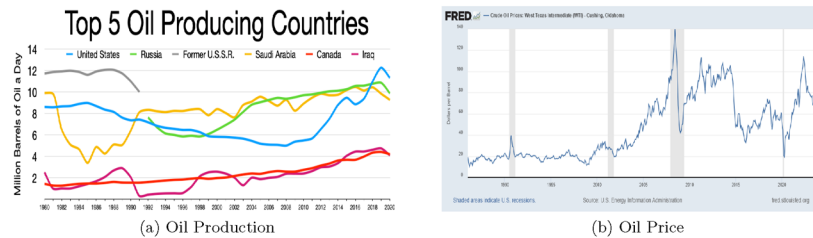


Figure 1: The production and price of crude oil

In market economies, the price mechanism plays many crucial roles, one such role is directing technological change. Before answering the question about housing, I want to briefly discuss how directed technological change transformed the market for oil as the juxtaposition will be enlightening. Figure 1a plots the top-five oil producing countries in the world, and Figure 1b plots the price of oil. Around 2008, there is an inflection point for the production of oil in the United States, in which production more than doubled over a ten-year period. The U.S. is currently the leading

*Walter Professor of Financial Economics, Director of the Center of Applied Economics and Policy Research, Indiana University; walkertb@indiana.edu.

producer of oil in the world, a statistic unfathomable just 15 years ago! How did this happen? It is not a coincidence that the aforementioned inflection point of U.S. oil production aligns nearly perfectly with the peak in oil prices of 2008 (Figure 1b). The price of oil gets manipulated by many factors, including cartel-like behavior and investor sentiment, but the nearly ten-fold increase in the price from the end of 2001 to June 2008 made it profitable for companies to develop new technologies to extract oil more efficiently (e.g. the shale revolution). Higher prices provide incentive for companies to develop these technologies, hence the term “directed technological change” and this is exactly what happened in the oil market. And while firms certainly profit from their inventions, consumers benefit tremendously as well because technological advancements mean more supply and lower prices.

In the case of oil, a run-up in the price facilitated new technology and an increase in supply. There is consensus among economists and policy activists on both sides of the aisle that a lack of supply in housing (or excess demand) is the primary problem. Why is the price mechanism failing this market? What is preventing the housing market from effectively responding to the demand? I can do no better than to quote directly from the paper, *The Economic Implications of Housing Supply*, by Glaeser and Gyourko¹:

We employ a cost-based approach to gauge whether a housing market is delivering appropriately priced units. Specifically, we investigate whether market prices (roughly) equal the costs of producing the housing unit. If so, the market is well-functioning in the sense that it efficiently delivers housing units at their production cost. The gap between price and production cost can be understood as a regulatory tax. The available evidence suggests, but does not definitively prove, that the implicit tax on development created by housing regulations is higher in many areas than any reasonable negative externalities associated with new construction.

If the welfare and output gains from reducing regulation of housing construction are large, then why don’t we see more policy interventions to permit more building in markets such as San Francisco? The great challenge facing attempts to loosen local housing restrictions is that existing homeowners do not want more affordable homes: they want the value of their asset to cost more, not less. They also may not like the idea that new housing will bring in more people, including those from different socioeconomic groups.

These scholars point to local regulation as the primary burden limiting the supply of affordable housing. These regulations (along with other regulations like rent control) do not allow the market to respond to the price mechanism efficiently; hence supply remains restricted making housing less affordable. This points to an obvious answer, regulatory reform at the local municipality level.

To address the second question, demand-side proposals, such as vouchers, would have several unintended consequences like increasing the price of these homes, displacing marginal families that

¹Edward Glaeser and Joseph Gyourko. *The Economic Implications of Housing Supply*. *Journal of Economic Perspectives*. Vol. 32, No. 1, pp. 3-30.

do not qualify for the voucher program, and providing incentives to qualify for vouchers. Policies that serve to address the root cause of the problem, which I believe to be constraints on supply, would be much more effective. Demand-side policies to address supply-side issues always fail to meet objectives. Moreover, I believe local municipalities are better positioned to address these supply-side issues, not the federal government. This is especially true given the current fiscal climate. If current spending / revenue projections are realized, it could have deleterious consequences for all aspects of the economy, including but not limited to the cost to purchase and rent a home.



NGFS First Progress Report

OCTOBER 2018



Executive summary

The Network for Greening the Financial System (NGFS), launched at the Paris One Planet Summit on 12 December 2017, is a group of 18 Central Banks and Supervisors and 5 international organizations willing, on a voluntary basis, to contribute to the analysis and management of climate and environment-related risks in the financial sector, and to mobilize mainstream finance to support the transition toward a sustainable economy. Its purpose is to define and promote the implementation of best practices within and outside of the Membership of the NGFS and to develop analytical work on green finance. Its work is built on a range of national and international initiatives responding to the financial risks and opportunities stemming from climate – and environment – related changes, such as the Task Force on Climate-related Financial Disclosures (TCFD) and the G20 Green/Sustainable Finance Study Group as well as broader international activity such as the Paris Agreement and Sustainable Development Goals (SDGs).¹

The key messages from the first phase of NGFS work as reflected in this progress report are outlined below:

1. NGFS Members acknowledge that climate-related risks are a source of financial risk. It is therefore within the mandates of Central Banks and Supervisors to ensure the financial system is resilient to these risks. As set out in the academic literature, climate change will affect the global economy and so the financial system that supports it. The financial risks it presents are in consequence system-wide and potentially irreversible if not addressed. Exact pathways may be uncertain but it is foreseeable that financial risks will crystallize in some form through either the physical or transition channel, or some combination of them both. And while the financial risks may be realized in full over extended time horizon, the risks call for action in the short-term to reduce impact in the long-term. Some NGFS members have extended this analysis to broader environmental risks finding that these are a source of financial risk as well.
2. Against this backdrop, authorities and financial institutions need to develop some new analytical and supervisory approaches, including those based on forward looking scenario analysis and stress tests. Action is required now

to reduce future financial risk although historical data is not sufficient to estimate this impact. The nature of the risk factors requires an enhanced approach, one that is forward looking and takes a long-term perspective. There may also be benefit of using data driven stories based on future potential scenarios as well as traditional analytics and quantitative risk modelling.

3. Central Banks and Supervisors, as well as financial institutions, are beginning to deepen their understanding of these risks and the need for an improved approach. The stock-taking exercise conducted within NGFS Members shows that Supervisors are starting to actively assess the prudential risks and begin to set supervisory expectations to enhance financial risk management of supervised firms. A growing number of financial institutions have also conducted their own climate and environment-related analysis.
4. The tools and methodologies, however, are still at an early stage and there are a number of analytical challenges. For example, the quality and availability of data is limited, taxonomies and definitions are still developing and there is a need to build intellectual capacity in translating the science into decision-useful financial risk assessment information. More work is also needed to assess whether a financial risk differential exists between “green” (low-carbon) and “brown” (carbon and pollution-intensive) assets.
5. Some Central Banks are also starting to play their part in scaling up green finance by accounting for climate and environment-related factors in their investment strategies for instance. A few Central Banks, regulators and local authorities have introduced incentives for banks to increase green lending and for issuers to issue green bonds.

In the coming months, the NGFS will carry on its work on the following deliverables which will feature in its first comprehensive report to be published by April 2019:

- Narrowing down the complexity of risk analysis, e.g. through the development of a small number of high

¹ <https://www.banque-france.fr/en/communique-de-presse/joint-statement-founding-members-central-banks-and-supervisors-network-greening-financial-system-one>

level scenarios, in line with TCFD recommendations on the use of scenario analysis as a helpful tool for assessing future risks and opportunities.

- Analyzing the outcomes of the stock-take of supervisory and macro-prudential approaches to enhance firms' financial risk management, assess systemic risks and support disclosure.

- Taking forward further analysis of potential risk differential between "green" and "brown" assets, identifying gaps where further work needs to be carried out and appropriate Central Bank and Supervisory responses.

- Doing further work to identify some specific areas for Central Banks and Supervisors to "lead by example" and integrate climate-related criteria in a growing number of their operations.

1. Climate-related risks are a source of financial risk and fall within the supervisory and financial stability mandates of Central Banks and Supervisors²

The NGFS conducted its review based on the broadly agreed definition of the two main channels of transmission of climate-related risks – physical and transition – which are used by authorities for the purpose of Environmental Risk Analysis (ERA).³

1.1 Physical and transition risks will impact macroeconomic conditions on the demand side as well as on the supply side and can potentially result in large financial losses

Physical risks are categorized as acute when they arise from climate- and weather-related events, such as droughts, floods, storms and sea-level rise and chronic when they arise from progressive shifts in climate and weather patterns such as increasing temperatures. They comprise impacts directly resulting from such events and shifts, such as damage to property or reduced productivity, and also those that may arise indirectly through subsequent events, such as the disruption of global supply chains.

There is a number of supply and demand channels through which physical risks can impact on the macro-economy.

On the demand side, losses deriving from extreme weather events such as floods and storms could reduce household wealth and therefore private consumption. Business investment could also be reduced by damage to physical and financial assets as well as by uncertainty about future demand and growth prospects. Besides, current consumer preferences could change towards greener consumption. There will be global impacts with some winners and losers but the global welfare losses are likely to be substantial.

The main *supply*-side shocks are represented by a shortage of availability of inputs produced locally or imported, by the volatility in import prices as a result of these shortages, and by the damages to the capital stock and infrastructure, including through transportation disruption. More broadly, physical climate change could have large impacts in terms of reducing the potential of the economy to grow in the future, by reducing labor productivity and diverting resources from investment in current productive capital and innovation to climate change adaptation.

Physical risks can potentially result in large financial losses

that can have micro as well as wider systemic impacts. Financial institutions can be affected by physical risk directly, for instance by reduced value of assets and collateral,⁴ increasing insured damages,⁵ or by disrupting their own business operations⁶ (e.g. power outages, branch closures⁷). If losses are insured, they can directly affect insurance firms through higher claims. If losses are uninsured, the burden can fall on households, corporates and states. This can impair asset values, for example through increasing sovereign risk, and reduce the value of investments held by financial institutions. It can also increase credit exposures for banks and other lenders.

Financial institutions can also be affected by physical risk indirectly, for instance by impairing business conditions for the real economy and creating political instability due to rising migration or increased mortality due to worsened living conditions.⁸

Transition risk is the financial risk which can result from the process of adjustment towards a lower-carbon economy prompted, for example, by changes in climate policy, technology or market sentiment.

There is a wide range of estimates from the literature on what the overall impact could be on the macro-economy from transition factors.

Economic costs can arise from the need, in some sectors, to switch from high to low carbon technologies. As some sectors, for instance, aviation or cement and steel production currently have limited low-carbon alternatives, they will be prone to higher emission costs. However, others have argued that there could be a positive “green growth” effect, meaning that ambitious climate policies associated with structural reforms could increase investment and could actually benefit the global economy in the short- and in the medium-term.⁹

² Some NGFS members have extended this analysis to broader environmental risks, which are also being considered within supervisory and financial stability mandates.

³ Environmental Risk Assessments (ERA) are a concept developed at the G20 level (Green Finance Study Group, *Green Finance Synthesis Report*, July 2016).

⁴ Scott et al., *The Bank of England's response to climate change*, 2017.

⁵ DNB, *Waterproof?*, 2017; Finansinspektionen, *Climate Change and Financial Stability*, March 2016.

⁶ Stenek et al., *Climate Risk and Financial Institutions*, 2010.

⁷ German Federal Ministry of Finance, *Climate change and financial markets*, 2016.

⁸ DNB, *Waterproof?*, 2017.

⁹ OECD, *Investing in Climate, Investing in Growth*, 2017.

If not well managed, the transition could prompt a reassessment of the value of a wide range of assets, for example equities, bonds and derivatives, as well as the broader capital stock used in an economy, as changing costs and opportunities become apparent. This may have implications for asset holders as well as other financial institutions such as banks that assist clients in managing financial risk. Business risks such as reputational or liability risks could also arise when parties suffer losses related to climate change.

The impact of the transition risk may depend on the timing as well as the speed of the transition (early versus delayed transition and/or gradual versus abrupt transition). The speed at which any re-pricing may occur is uncertain but could be important for financial stability and the safety and soundness of financial firms. Overall, if it is gradual and starts early, the macro-economic costs and risks to financial stability can be minimized but transition risks would likely be most pronounced in the case of a late and abrupt transition.

1.2 Supervisors and financial institutions are starting to adapt their practices to address climate and environment-related risks

Supervisors have started to actively assess the impact of climate and environment-related risks on prudential risks and are beginning to set expectations to enhance the financial risk management of supervised firms. However, there are challenges to undertaking analyses e.g. on how physical effects of climate change will affect risks on asset-level and the extent to which a financial risk differential exists between “green” and “brown” assets.

Environmental Risk Assessment (ERA) by supervisory authorities is becoming more and more commonplace, albeit still evolving. The first step to achieve successful integration of climate and environment-related risks into supervision is to assess possible impacts on financial institutions from both physical and transition effects of climate change. Environmental Risk Assessment refers to the methods and modelling techniques used to size the financial impact of climate and environment-related risks to micro-prudential objectives. Over the last few years, progress has been made to size the financial risks from climate change from both physical and transition risks. Some members have sized the risks from broader environmental concerns as well.

The stock-taking shows that the maturity of the ERAs varies across authorities. Current practices include a range of qualitative and quantitative approaches, with qualitative methods particularly effective for considering longer-term scenarios, and quantitative methods giving greater visibility of shorter-term financial exposures. Understanding best practices within the private sector can be helpful to advance this further.

To support ERA and the integration of climate and environment-related factors into supervision, authorities are building in-house capacity and collaborating within their institutions, with other supervisors, and with wider stakeholders. A key aspect of capacity building is improving Supervisors’ understanding of the financial risks from climate and environment-related factors and the distinct characteristics of those risks, such as the timing mismatch between action and impact.

So far the integration of climate and environment-related factors into prudential supervision has been limited. Most authorities are focused on raising awareness; some are beginning to consider setting supervisory expectations. As prudential regulation should not be used for non-prudential purposes, all Members bind the decision on adjustments to prudential regulation on the evidence of a risk differential between the related exposures. Most authorities appear to be focused on engaging with financial firms to help build intellectual capacity. Only one authority (the PBOC) has introduced “green supporting factors”, not through a change in capital requirement, but via a green re-lending facility (which provides low-cost liquidity for banks to extend green loans) and by including green performance measurement in macro prudential assessment (MPA) of commercial banks.

In most jurisdictions, the default rates of “green” and “brown” assets have not been evaluated. Differentiating between “green” and “brown” assets is a challenge as the available data is not based on a standardized method of classification. A common reason given by jurisdictions is the difficulty in achieving a consistent and comparable classification of “green” and “brown” assets. A clear taxonomy can help overcome this issue and harmonize the classification of assets on a global scale.

1.3 Disclosure frameworks are in place, or are being developed, but there are differences in disclosure practices across different jurisdictions

The stocktaking exercise conducted within NGFS Members also shows that financial institutions and authorities are developing disclosure frameworks. The robust disclosure of climate and environment-related information by financial institutions' key role is mainly as threefold:

- First, it is integral to an efficient, well-functioning capital market, by improving the pricing mechanisms for climate and environment-related risks, and contributing to more efficient allocation of capital;
- Second, it will also enable market players, as well as policymakers, to quickly identify and capitalise on climate and environment-related opportunities, which will contribute to the continued growth of the green finance ecosystem;
- Third, the discipline of public disclosure requires financial institutions to establish the necessary data collection and procedures to better identify and manage their risks. Better disclosure therefore can lead to better risk management.

There are differences in environment- and climate-related disclosure practices across jurisdictions, in terms of what and how to disclose. Most jurisdictions have in place or are planning to implement some form of environment – and climate-related disclosure requirements for their entities. Disclosures may be mandated through legislation, and/or encouraged through bottom-up industry initiatives and guidelines. In general, most of the jurisdictions with disclosure requirements would set out what to disclose, but accord entities with some flexibility on how to comply.

Investors and, in general, market participants would benefit from a more standardized framework for environmental disclosures. The TCFD recommendations provide a possible avenue of convergence for a global standardized framework on climate-related disclosures, for both financial and non-financial companies.

There is a significant level of awareness amongst Central Banks, Supervisors and regulated entities on the recommendations. Despite being voluntary in nature, this has not impeded rising adoption of TCFD recommendations by financial institutions. While most firms are only at the stage of reviewing and understanding their implications, certain firms have gone further to engage external consultants for guidance on implementation of the recommendations.

1.4 The stock-take conducted by the NGFS among its Members and Observers has also highlighted a number of challenges for financial Supervisors and Central Banks as well as for financial institutions

Data availability is limited, which impedes the ability of authorities and financial institutions to undertake risk assessment and for firms to carry out climate and environmental disclosure. Quality of data is also affected by limited information available on climate and environmental disclosure and sustainability practices of financial institutions' corporate clients. Access to asset-level data is a particular challenge.

Taxonomy and definitions around "green" and sustainable assets will be important for clearly defining the terms 'green' and 'brown' in relation to climate and other environmental considerations as appropriate, the creation of "green" (and "brown") labels but also in achieving consistency in the classification of "green" versus "non-green" assets as a base in an analysis of potential risk differentials between different types of assets.

Timing mismatch between action and impact means a long-term perspective is required to ensure actions today are considered in light of future impacts.

The need for capacity building is underscored by several challenges, including the need to translate the scientific understanding of climate change and environmental factors into financial risk assessment, as well as minimizing the increased administrative burden and compliance costs on financial institutions arising from the need for higher quality climate and environmental disclosures.

2. Authorities and financial institutions need to develop some new analytical and supervisory approaches based on forward looking scenario analysis

2.1 Sizing climate-related risks and assessing their macroeconomic and financial stability impact is complex due to the time mismatch between actions and impacts

A relevant analysis needs to focus on long-term consequences while accounting for historically unprecedented risks and the possibility of major irreversible changes. The time horizon, discount rate, timing of reaction, as well as the evolution of policies and technologies are difficult assumptions to establish under uncertainty and diverging climate scenarios. Thus, the results vary deeply across regions and sectors and are characterized by a high degree of uncertainty, leaving a wide analytical gap to be filled-in. **The range of estimations calls for an important work of mapping and rationalizing the assumptions.** Moreover, financial stability assessment using modelling approaches necessitates extensive granular data which are currently lacking.

The nature of the risk factors requires an enhanced approach, one that is forward looking and takes a long-term perspective. As the full impact of climate change may be felt in the longer-term, historical data may not be sufficient. There may also be benefit of using data-driven stories based on scenarios as well as traditional analytics and quantitative risk modelling, in line with TCFD recommendations. For example, at a high level, there are many possible scenarios, including those where internationally determined climate and environmental goals are not met, accounting for various timings of market transition (i.e. a late and abrupt transition).

2.2 The integration of climate-related risks into macroeconomic surveillance and financial stability assessments is facing some analytical and methodological challenges

Whereas macroeconomic forecasting is fully developed in each NGFS jurisdiction, on different time horizons and with energy prices included as a production factor, **climate-related risks do not appear to feature in forecast models nor as qualitative input factor.** Some jurisdictions have started to

model some of the impacts of climate-related risks on the macroeconomy and financial stability, with ad hoc models. These seek to identify transmission channels from climate change and the transition to macroeconomic variables of interest, the impact of natural disasters on trade flows, and the accumulation of transition risk. Some impact studies on specific economic sectors are under development as well.

NGFS Members apply different monitoring tools to understand the financial stability risks posed by physical risks and transition risks. These include:

- Presenting climate-related physical risks indicators (temperature anomalies, CO2 emissions, losses from relevant natural disasters, impact of hydro-meteorological phenomena);
- Assessing the exposures of banks and insurers to carbon intensive and climate vulnerable sectors;
- Monitoring returns on equity/CDS/equity index of carbon intensive and climate vulnerable sectors;
- Stress tests, mostly via top-down cliff edge analysis, leveraging previous academic findings for the severity of the stress, to assess the short term impact of a climate event on financial institutions' balance sheets. These stress tests apply to banks, insurance companies, pension funds, mutual funds and brokerage houses;
- Analysis to see how aligned the portfolios of financial institutions are with the transition, and what the potential financial stability risks could be.

3. Central Banks are also beginning to play their part in scaling up green finance

3.1 Central Banks are taking actions to reduce their climate/environmental impact and some of them account for climate- or environmental-related factors in their investment strategies

It appears from the NGFS review that sustainability criteria still play a minor role in most of the NGFS Central Banks' own funds portfolio management. However, several institutions are planning or at least considering deepening

the integration of sustainability criteria in their portfolio management framework. Against this background, the NGFS and De Nederlandsche Bank organized a conference on this topic in September in Amsterdam. Representatives from circa 50 different Central Banks and policy institutions discussed best practices and corresponding challenges concerning the integration of sustainability criteria into the management of their own funds, pension funds and official reserves.

Credit assessments show a similar picture: climate- or environmental-related criteria are not yet sufficiently accounted for in internal credit assessments or in the models of credit agencies' models which many Central Banks rely on for their operations. The typically short time-horizon of these assessments has (to date) limited the possibility of considering long-term effects. First attempts to integrate these factors have already been made by a few Members, whose experience may provide useful lessons for others emulating such approaches in the future. One Central Bank has announced that it will sign the Principles for Responsible Investment in 2019.

Most NGFS Central Banks do not take into account climate-related risk in the conduct of their monetary policy. Nevertheless, many of them have recently invested in green assets within the scope of their quantitative easing programmes. Yet these investments were as a consequence of market neutral asset purchases rather than targeted support for green finance. Among NGFS Members, so far only one Central Bank, the People's Bank of China, has a dedicated policy to promote green finance via monetary policy.

3.2 There is room for Central Banks and Supervisors to "lead by example" and integrate climate-related criteria in a growing number of their operations

To incorporate sustainability criteria into Central Banks' and Supervisors' activities and, when this falls within an authority's mandate, actively support green finance, a thorough grasp of the market and its dynamics is crucial. The understanding of these market trends, however, is hampered by the absence of comprehensive and agreed definitions on what "green" means and the fragmented nature of the market itself. NGFS Members seek to monitor and analyze market developments and participate in a variety of

fora and private sector initiatives. This kind of involvement of NGFS Members in market initiatives is in line with the expectations of the industry.

Central Banks and Supervisors can stimulate the evolution and encourage the improvement of existing green market infrastructure. New green financial instruments based on green indices or derivatives could for instance be developed to improve market depth. Within the overall debate it is important to keep in mind that there are still trade-offs, which need to be balanced: soft approaches (values driven) versus hard approaches (risk driven), regulations versus market forces or harmonization versus diversity. From a financial stability perspective, the potential related financial risks have to be monitored. These are all topics that are under discussion – within both the private and public sector. Thus, there is a growing pressure from the public and industry for Central Banks and Supervisors to act. The NGFS commits itself to play an important role as a catalyst and contribute structure, clarity and orientation to this debate.

In order to explore options for Central Banks and Supervisors to facilitate the mainstreaming of green finance, it is important to understand the industry as well as the academic views. Therefore, the NGFS has repeatedly sought the advice and input of experts through various workshops and conferences. In June 2018, the NGFS hosted an industry outreach in Singapore, during which market experts emphasized the potentially significant financial consequences of climate change which needed to be balanced by the fact that the industry is becoming increasingly aware of the resulting business opportunities. The role Central Banks and Supervisors could play as "public good providers" has been welcomed as a good signal. Participants also highlighted a number of obstacles to mainstreaming green finance. As a network of regulatory authorities, some industry representatives hope for the NGFS to provide guidance and to establish more clarity with regards to "green" assets. In addition, the NGFS and the Council on Economic Policies (CEP) will organize an academic conference on "Scaling up Green Finance: The Role of Central Banks", which will be hosted by the Deutsche Bundesbank on November 8-9, 2018 in Berlin. It is also key for Central Banks to identify climate-related risks as both physical and transition risks impact macroeconomic variables that are central in the monetary frameworks, as explained in more details in section 2.

Conclusion

As a conclusion, NGFS preliminary findings show that while Supervisors and Central Banks have greatly increased their efforts in understanding and assessing the magnitude of climate- and environment-related risks, this is a new discipline and they still have a long way ahead to improve their tools and methodologies. Since the establishment of the NGFS, this road ahead may still be long but is becoming clearer.

In the coming months, NGFS will carry on its work on the following deliverables which will feature in its first comprehensive report to be published by April 2019:

- Narrowing down the complexity of risk analysis, e.g. through the development of a small number of high level qualitative scenarios of transition paths in line with

TCFD recommendations on the use of scenario analysis as a helpful tool for assessing future risks and opportunities.

- Continuing to stock-take supervisory and macro-prudential approaches to enhance firms' financial risk management, assess systemic risks and support disclosure.
- Taking forward further analysis of potential risk differentials between "green" and "brown" assets and appropriate Central Bank and Supervisory responses.
- Doing further work to identify some specific areas for Central Banks and Supervisors to "lead by example" and integrate climate-related criteria in a growing number of their operations, including the management of own funds, pension funds and official reserves.

List of NGFS Members and Observers

Chair: Frank Elderson (DNB)

Secretariat: Banque de France

Members	Observers
BaFin- Bundesanstalt für Finanzdienstleistungsaufsicht Banco de España Banco de Mexico Bank Al Maghrib Bank of England Bank of Finland Banque centrale du Luxembourg Banque de France and Autorité de contrôle prudentiel et de résolution Banque nationale de Belgique De Nederlandsche Bank Deutsche Bundesbank European Central Bank Japan Financial Services Agency Monetary Authority of Singapore Oesterreichische Nationalbank People's Bank of China Reserve Bank of Australia Swedish Finansinspektionen	Bank for International Settlements European Bank for Reconstruction and Development Organisation for Economic Cooperation and Development Sustainable Insurance Forum World bank and the International Finance Corporation

Selected publications by NGFS members

Banco de España (BdE)

José Manuel Marqués Sevillano and Luna Romo González,
The risk of climate change for financial markets and institutions: challenges, measures adopted and international initiatives, May 2018.

Bank of England (BoE)

Matthew Scott, Julia van Huizen and Carsten Jung
The Bank's response to climate change, June 2017.

Transition in thinking: The impact of climate change on the UK banking sector, September 2018.

Banque de France (BdF) and Autorité de contrôle prudentiel et de résolution (ACPR)

French Treasury, Banque de France and ACPR,
Assessing climate change-related risks in the banking sector, 2017.

Bank for International Settlements (BIS)

Torsten Ehlers and Frank Packer,
Green bond finance and certification, 2017.

De Nederlandsche Bank (DNB)

Waterproof? An exploration of climate-related risks for the Dutch financial sector, 2017.

Time for Transition: an exploratory study of the transition to a carbon-neutral economy, 2016.

Sustainable investment in the Dutch pension sector, 2016.

The Washington Post

Democracy Dies in Darkness

ECONOMIC POLICY

Falling inflation, rising growth give U.S. the world's best recovery



By [David J. Lynch](#)

January 28, 2024 at 6:00 a.m. EST

The European economy, hobbled by unfamiliar weakness in Germany, is barely growing. China is struggling to recapture its sizzle. And Japan continues to disappoint.

But in the United States, it's a different story. Here, despite lingering consumer angst over inflation, the surprisingly strong economy is outperforming all of its major trading partners.

Since 2020, the United States has powered through a once-in-a-century pandemic, the highest inflation in 40 years and fallout from two foreign wars. Now, after posting faster annual growth last year than in 2022, the U.S. economy is quashing fears of a recession while offering lessons for future crisis-fighting.

"The U.S. has really come out of this into a place of strength and is moving forward like covid never happened," said Claudia Sahm, a former Federal Reserve economist who now runs an eponymous consulting firm. "We earned this; it wasn't just a fluke."

On Friday, [President Biden](#) hailed fresh government data showing that annual inflation over the second half of 2023 fell back to the Federal Reserve's 2 percent target. Coupled with Thursday's news that the economy grew by 3.1 percent over the past 12 months, the Commerce Department report showed that the United States appears to have achieved an economic soft landing.

The recovery from the pandemic challenged long-standing economic beliefs, such as the idea of an inverse relationship between unemployment and inflation. (As one rose, the other was expected to fall.) Expressed in what economists call the Phillips curve, this nostrum proved nearly useless in explaining the economy's recent behavior.

Washington's success in reviving the economy also suggests a new approach to future downturns, one that relies more on the government's power of the purse and less on the Federal Reserve's control of the cost of credit.

"Putting money in people's hands vs. moving around interest rates, which is monetary policy, fiscal policy is going to be stronger," Sahm said. "We cannot go into the next crisis being, like, 'Oh, the Fed's got this.'"

Consumer spending is driving the economy: Real consumption rose by 0.5 percent in December, its fastest pace since last January. Pending home sales jumped, too. Following the flurry of good news, JPMorgan Chase economists said they raised their first-quarter growth forecast

U.S. economy's rising growth, falling inflation quells recession fears - ... <https://www.washingtonpost.com/business/2024/01/28/global-economy...>

IBM, Visa and General Electric last week each reported earnings that topped analysts' expectations, another sign of the economy's continued health.

The \$28 trillion U.S. economy weathered multiple shocks over the past year and returned to the growth path it was on before the pandemic. The size of the economy, adjusted for inflation, regained its pre-pandemic peak in early 2021. Through the end of September, it was more than 7 percent larger than before the pandemic. That was more than twice Japan's gain and far better than Germany's anemic 0.3 percent increase, according to [British Parliament data](#).

For most Americans, the growth paid off in the form of higher wages. Over the four years through September, the most recent comparison available, U.S. wages — after inflation — grew 2.8 percent.

Most other countries in the Group of Seven industrial democracies saw a decline, according to Treasury Department data. Italian wages sank by more than 9 percent over that period, while German workers earned 7.2 percent less than they had before the pandemic.

"The U.S. has seen a particularly strong GDP recovery, and inflation has cooled sooner and more quickly than in other large, advanced economies. And the increase in real wages is unique to our country's recovery," Treasury Secretary [Janet L. Yellen said](#) in a Chicago speech last week.

The origins of this doom-defying performance can be traced to lawmakers' swift response to the [coronavirus](#) pandemic in March 2020. Before the month had ended, Congress approved more than \$2 trillion in help for the economy as businesses closed and 17 million Americans lost their jobs.

That was just the start of Washington's spare-no-expense response to the worst economic crisis since the Great Depression. Congress eventually approved roughly \$6 trillion to save the economy from the pandemic; Presidents [Donald Trump](#) and Biden both took administrative actions, such as a pause of student loan payments, that added another \$875 billion to the rescue tab, according to the [Committee for a Responsible Federal Budget](#).

The Fed helped by cutting borrowing costs for consumers and businesses and by buying trillions of dollars' worth of government and mortgage-backed securities to goose the economy.

But the principal force behind today's robust economy lies in fiscal policy, the use of government spending and taxation to boost growth. Under two presidents — one Republican and one Democrat — lawmakers opted to bathe the economy in cash to ward off the coronavirus.

All of that government spending — the stimulus checks, the loans to small businesses and the expanded unemployment benefits — added up to an astonishing 25.5 percent of gross domestic product, according to the [International Monetary Fund](#).

Major European and Asian nations spent significantly less. In Germany, the government devoted 15.3 percent of GDP to battling the pandemic. France spent 9.6 percent and Italy 10.9 percent. Even Britain, which comes closest to American economic views, lagged far behind the United States with 19.3 percent of GDP.

U.S. economy's rising growth, falling inflation quells recession fears - ... <https://www.washingtonpost.com/business/2024/01/28/global-economy...>

"The scale of fiscal support for the U.S. economy was an order of magnitude greater than in Europe," said Neil Shearing, chief economist for Capital Economics in London.

To be sure, the American response to the crisis was not without blemishes. Determined to avoid the policy failures that led to the anemic recovery after the 2008 financial crisis, Biden may have overcompensated.

The final burst of coronavirus relief, the \$1.9 trillion American Rescue Plan in early 2021, while boosting growth, is widely regarded as having contributed to the surge in prices that lifted inflation to a 40-year high of 9.1 percent.

The rescue plan included \$1,400 stimulus checks for most Americans, enhanced unemployment benefits, and aid to state and local governments. Coming on top of a separate \$900 billion program in December 2020, the [American Rescue Plan](#) was [responsible](#) for two to four percentage points of the inflationary surge, according to several studies by economists.

Emergency help for the battered economy also pushed the national debt to a new high of \$34 trillion, or more than 120 percent of annual economic output, aggravating a long-term threat to the nation's prosperity, some economists say.

As the pandemic eased, Biden secured other legislative wins on infrastructure, semiconductor industry subsidies and clean-energy projects. These were not designed as stimulus programs, but by sending additional rivers of money into the economy, they had that effect, according to Dean Baker, an economist with the Center for Economic and Policy Research.

"These began to kick in last year as the effect of the initial stimulus was waning," he said. "I realize this was largely luck, but it was incredibly good timing."

The United States benefited from free-spending, fast-moving policy. But Europe suffered from being closer to the front lines of Russia's war on Ukraine. Before the conflict erupted in February 2022, countries such as Germany depended on Russia for much of their natural gas needs. The war caused a huge spike in prices for food, fuel and fertilizer, causing inflation in the euro area to rocket.

[Europe's response](#) to the economic crisis generally required businesses that received government help to keep their workers on the payroll. Whereas Americans were laid off but then aided by unemployment and stimulus checks, Europeans were kept on the job.

That spared them the uncertainty of labor market limbo but often locked them into jobs that were not needed in the post-pandemic world.

For years after the 2008 crisis, President Barack Obama — under pressure from a Republican Congress — accepted a need to reduce federal spending. That left the Fed to fight economic weakness on its own. Next time, thanks to the pandemic experience, the nation's eyes may turn to Capitol Hill.

One lesson from the pandemic recovery is the power of the government's ability to tax and spend, economists said.

U.S. economy's rising growth, falling inflation quells recession fears - ... <https://www.washingtonpost.com/business/2024/01/28/global-economy...>

Congressional actions can affect the economy faster than the lagged impact of a change in borrowing costs and are more certain than the results of other, less conventional Fed policies designed to spur growth.

"Government, through fiscal policy, really can affect the speed of recovering from a downturn," said former Fed economist Michael Strain, now with the American Enterprise Institute. "Now, there are a million caveats to that."

Every dip in the economy does not require massive government intervention, and whatever programs are implemented should be well-designed and carefully policed. In the rush to release covid aid, for example, the Small Business Administration disbursed more than \$200 billion in potentially fraudulent business loans and related assistance, the agency's inspector general reported last year.

That is more than the Transportation Department's annual budget.

Some economists see more than government policy behind the U.S. recovery. As the pandemic made millions of Americans jobless almost overnight in the spring of 2020, many responded by launching business ventures.

That trend has continued for four years. In December, 457,316 applications for tax identification numbers were lodged with the Internal Revenue Service, compared with 314,337 in December 2019.

"I think we're seeing something about the American spirit and the kind of economic dynamism that — for whatever reason — doesn't exist in other high-income countries to the extent that it exists here," Strain said. "One of the most interesting things happening in the economy right now, and over the last few years, is the big boom in entrepreneurship."



Statement to the Senate Budget Committee*

A Blueprint for Prosperity: Expanding Housing Affordability

Achieving Housing Abundance through State and Local Land Use and Zoning Reform

How to Overcome Government Regulatory Failures to Enable the Market to Increase the Supply of Affordable Housing

Tobias J. Peter
Co-Director, Housing Center
Senior Fellow, American Enterprise Institute

January 31, 2024

*My statement is largely based on a prior testimony to the Joint Economic Committee on Jan. 17, 2024.

The American Enterprise Institute (AEI) is a nonpartisan, nonprofit, 501(c)(3) educational organization and does not take institutional positions on any issues. The views expressed in this testimony are those of the author.

Chairman Whitehouse, Ranking Member Grassley, and distinguished members of the Committee, thank you for the opportunity to provide a statement on this important topic.

Executive Summary

Housing affordability issues are real for many Americans.

As home prices and more recently mortgage rates have risen dramatically, many people can no longer afford to buy a home and have no choice but to remain renters. Since rents have also gone up, renters are feeling increasingly financially stretched. These increasing pressures have led to an increase in displacement and homelessness.

In this election year, Congress is feeling the urge to increase the supply of affordable housing.

Before taking any action, it should first consider a couple of misconceptions:

Misconception 1: The housing supply shortage is a market failure. Not true, it is rather a government regulatory failure.

Actions of all levels of government – from the implementation of restrictive zoning laws, the introduction of discretionary reviews in planning, and the rise of environmental laws and other regulations --- have made land scarce and homebuilding expensive. This has restricted private developers from building enough housing to keep up with demand. Today's housing shortage is estimated to be in the millions.

Misconception 2: The federal government can fix – or at least ameliorate - this shortage. Not true.

The federal government's track record in housing supply interventions is poor. Just consider how public housing, which is overseen and regulated by the Department of Housing and Urban Development (HUD), is crumbling. Or how the Federal Housing Administration's (FHA) expansion into high-risk single-family and multifamily insured lending ended up devastating whole communities during the late-1960s and early-1970s.

Likewise, the Low-Income Housing Tax Credit (LIHTC), established in 1986 to combat the lack of affordable housing, has done next to nothing to increase the supply of housing. According to one study, almost all LIHTC development would have been built by the market without any subsidies.¹

If that's not enough, LIHTC also limits social mobility and the program is corruption-prone and complex, thus crowding out many smaller builders.

Misconception 3: The only way to add affordable housing is through subsidies and government programs. Not true.

The root cause is government regulatory failure – and no amount of money can fix that. The true policy solution lies at the state and local level. The literature is clear that the most effective way to add

¹ Eriksen, Michael D., and Stuart S. Rosenthal. "Crowd out Effects of Place-Based Subsidized Rental Housing: New Evidence from the LIHTC Program." *Journal of Public Economics* 94, no. 11–12 (2010): 953–66. <https://doi.org/10.1016/j.jpubeco.2010.07.002>.

affordable housing is to build a lot of market-rate housing, which decreases the cost of both rented and owned homes. Removing this red tape could provide hundreds of thousands of new homes each year.

More supply helps tamp down the house price and rent appreciation of existing homes. As new market-rate housing is built, higher-income households will move into the new units, freeing up their now vacant lower-priced unit. This process—known as filtering-- repeats itself further down the home price ladder, as commonly seen in the new and used car market.

In the case of housing, new construction has not met demand, leading to a breakdown of the filtering process – or even a reversal, where lower income households are selling their older homes to higher income households. No wonder there is so little affordable housing available.

Misconception 4: institutional investors, junk fees, rent pricing algorithms, AirBnb, foreign buyers, or vacant homes are responsible for widespread housing unaffordability. Not true.

While these entities make easy scapegoats, they are at best symptoms of the supply-demand imbalance. To put it bluntly, housing was unaffordable even before many of these entities were established.

Misconception 5: Government can make housing affordable through various demand subsidies. Not true.

Such practices come in many forms -- looser lending policies, lower mortgage premia, downpayment assistance, deeper vouchers, etc. What these policies have in common is that they increase demand against a severely limited supply. This benefits those that own homes or those that receive the subsidy, but it raises housing costs for all.

Having dispelled these misconceptions, the solution to today's housing shortage becomes clear:

- 1) The federal government needs to stay out.

Congress will soon consider two bipartisan bills to address high rental costs: an expansion of LIHTC and the creation of the Workforce Housing Tax Credit (WFHTC).² Both programs would offer generous federal government subsidies for building new apartments. The WFHTC would extend eligibility for tenants earning below the area median. On a combined basis the two credits would expand eligibility to about three quarters of the nation's renters. Such a massive expansion of the state would waste taxpayer money, crowd out more private builders, and deter many families from advancing economically. Worst of all, it would do precious little to address the nation's housing supply problem. It would be bad policy for Congress to pass these bills.

On the lending side, the federal government also needs to abstain from the disproven notion of making housing more affordable through subsidies.

- 2) Zoning and land use policies are state and local issues and need to be tackled at these levels of government.

² The AEI Housing Center will be further exploring these ideas at an upcoming event on Thursday, Feb. 22, 2024 entitled "The Workforce and Middle-Income Housing Tax Credit." To register, please see: <https://www.aei.org/events/the-workforce-and-middle-income-housing-tax-credit/>

As numerous case studies from around the country have shown, the formula for successful housing reforms is simple:

- Enable by-right zoning,
- Allow greater density in lots of areas particularly around walkable and amenity-rich areas,
- Follow the KISS (Keep-It-Simple-Stupid) principle instead of micromanaging the process, and
- Complement high-rise Transit-oriented Development with Light-touch Density to provide naturally affordable (defined as unsubsidized housing with market-rate rents or prices) homes and wealth building homeownership opportunities with minimal changes to the built environment.

These actions will unleash the ingenuity of the American people by allowing builders of all sizes to build abundant market-rate housing over time. Fortunately, this is already happening – and entirely without federal involvement. In 2023 alone, Washington, Montana, and Vermont followed Oregon (2019) and California (2021) in passing statewide reforms that allow moderately higher density in the form of cost-effective duplexes, triplexes, and townhouses.³

The federal government could amplify this trend by auctioning off underutilized federal land without any strings attached for private market-rate development. As Sen. Lee has pointed out, there are plenty of opportunities, particularly out West. More land means more building, which will translate into more filtering and less affordability pressures.

On the other hand, federal involvement to influence state and local reform movements would result in complex, one-size-fits all solutions that violate the KISS principle and therefore perpetuate the housing supply problem.

Housing unaffordability is a self-inflicted wound, stemming from a government regulatory failure that perpetuates a massive supply-demand imbalance. This has resulted in higher home prices and rents relative to incomes. State and local supply reforms require no taxpayer subsidies and in the few areas where they have been implemented, they have been found to work. If more states and cities sign on, such reforms could provide hundreds of thousands of new homes each year and thus allow more Americans to access their own American Dream.

**

³ Harnessing Tailwinds on State and Local Land-Use Reform: A Bipartisan Playbook - Gov. Gianforte (MT): https://www.youtube.com/watch?v=E8DdGJAX-s&ab_channel=AmericanEnterpriseInstitute; <https://tcf.org/content/report/a-bipartisan-vision-for-the-benefits-of-middle-housing-the-case-of-oregon/>; ³ <https://www.aei.org/california-housing-conference/>

1. Housing affordability issues are real for many Americans.

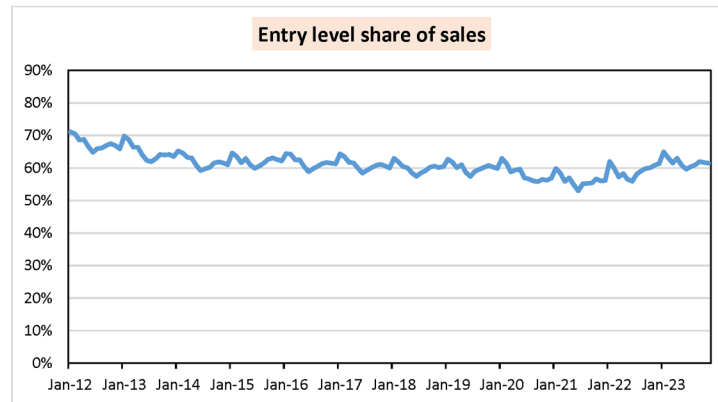
As home prices and more recently mortgage rates have risen drastically, many people can no longer afford to buy a home and have no choice but to remain renters. Since rents have also gone up, renters are feeling increasingly financially stretched. These increasing pressures have led to an increase in displacement and homelessness.

Due to rapid home price appreciation, potential homebuyers are getting crowded out of the market. While borrowers with incomes of \$75,000 to \$100,000 have the option to buy a lower-priced home, low-income Americans may be squeezed out of the market entirely.⁴

Here are a couple examples that illustrate the crowding out.

Example 1:

- The entry-level share of home sales, where most first-time homebuyers fall, has declined from 71% in Jan. 2012 to 61% in Sep. 2023.



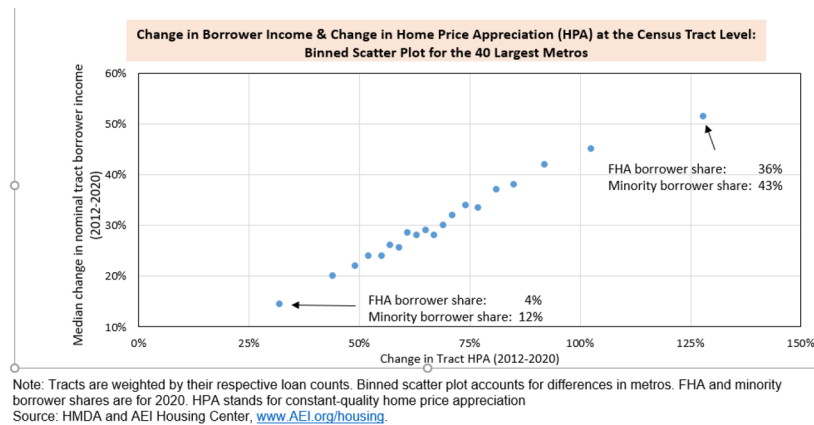
Source: AEI Housing Center.

Example 2:

- At the same time, the incomes of entry level buyers have risen much faster than wages. For census tracts with the fastest home price appreciation (HPA) (+125% from 2012-2020), we observe borrower income growth (+50%) that is twice the rate of national income growth (~27%).
 - Unfortunately, it is highly implausible that the incomes for these neighborhoods have gone up that fast. Instead, it is more likely that more-affluent households are buying in these neighborhoods.

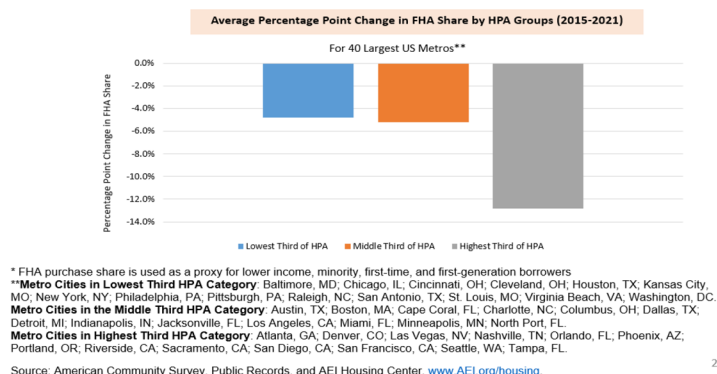
⁴ <https://www.wsj.com/articles/in-covid-19-housing-market-the-middle-class-is-getting-priced-out-11644246000?mod=mhp>

- For example:
 - In 2012, the borrowers purchasing in census tract A had a median income of \$40,000.
 - By 2020, these borrowers should be making \$51,000 according to wage statistics from the Atlanta Fed.
 - However in 2020, we observe that the borrowers now purchasing in census tract A have a median income of \$61,000.
 - Had the borrowers from 2012 not purchased in 2012, but rather tried to purchase in 2020, their income would not have sufficed to compete with the higher income borrowers that actually purchased in 2020.
- The census tracts with the fastest HPA also had the highest share of FHA purchase loans (an indicator for lower-income) and minority borrowers.



Example 3:

- The top one-third of large metros with the highest growth in HPA have seen a 13 percentage point reduction in FHA purchase loan share compared to a 6 percentage point reduction for the two-thirds of metros with lower levels of HPA.
- Since FHA is a proxy for lower-income and minority borrowers, this trend is indicative of substantial crowding out of low-income and minority potential homebuyers.



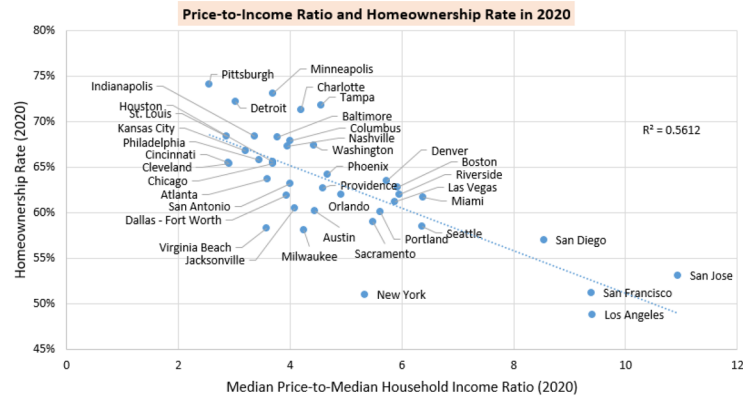
25

The rapid home price appreciation, which has far outpaced market fundamentals, is primarily affecting lower-income, first-time, and first-generation home buyers.

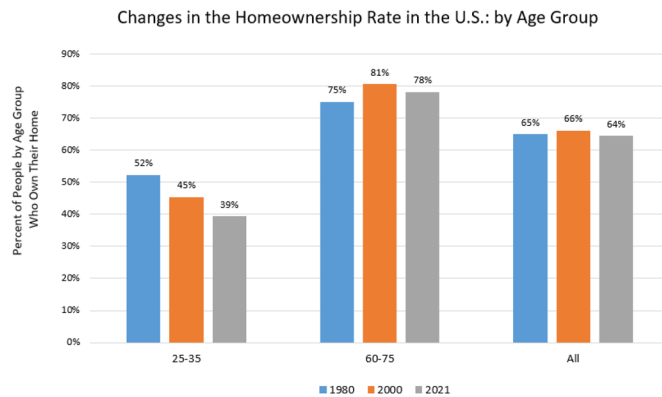
With increased competition for fewer and fewer affordable homes, potential entry-level buyers are increasingly outbid by individuals with slightly deeper pockets, who experience similar competition but higher up the price spectrum. These trends are indicative of the crowding out of potential low-income and minority homebuyers, driven by federal monetary and housing policies. (More on this below.) It is a violation of the Fair Housing Act.

When would-be buyers are crowded out of the market, it creates problems downstream. The higher the prices are relative to income, the lower the homeownership rate is:

- If potential buyers can no longer afford homeownership, they continue to rent, which lowers the homeownership rate.
 - There is already a noticeable correlation between home prices to income and the homeownership rate for the largest metros.



- Compared to 1980, the homeownership rate for households aged 25-35 has dropped from 52% to 39%, while the overall rate has barely changed.



Note: Homeownership is defined as reporting that the property is owned by either the respondent or their spouse.
Source: 1980 and 2000 Census, and the 2021 (5-year) ACS data and AEI Housing Center, www.AEI.org/housing.

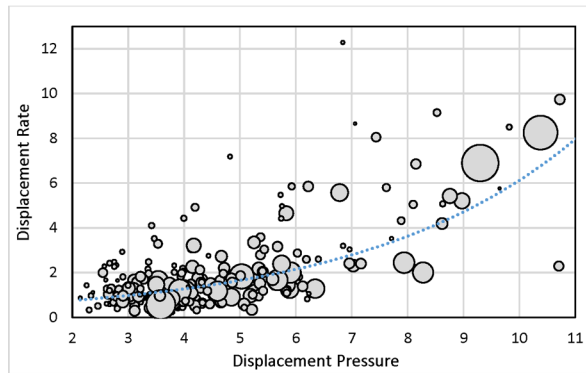
- With more borrowers being crowded out of homeownership, there is additional demand for rentals, which increases rents.
 - According to [Zillow](https://www.zillow.com/research/september-2023-rent-report-33159/), rent appreciation peaked in March 2022 at 16% year-over-year.⁵ This is up substantially from an average of around 4% year-over-year before the

⁵ <https://www.zillow.com/research/september-2023-rent-report-33159/>

pandemic. While rental increases have recently moderated back to their pre-pandemic average, rent levels today remain 30% above their December 2019 level. This is far greater than the 21% increase in wages over the same time.

- All these trends increase displacement pressure and signal higher rates of homelessness in the future.⁶ As my colleague Ed Pinto [has pointed out](#):
 “Point-In-Time (PIT) homeless and housing inventory counts (HIC) conducted in January 2023. The key finding was that homelessness reached a record high as the 2023 annual count increased 12% and 18% respectively from 2022 and 2017. The average rate of homelessness per 1000 population in 2023 was 20. ... We found that areas with a displacement pressure ratio of 3.0 had an expected displacement ratio of 1.0 per 1000, but where the displacement pressure ratio is 7.0, the displacement rate was four times higher.”⁷

Figure: Relationship between the median home price to median income ratio (displacement pressure) and the homeless per 1,000 people (displacement rate) at the Continuums of Care level: 2019



Note: Circles indicate the size of the CoC's population. Across 369 Continuums of Care (CoCs), we find a R^2 of .78 between Point-in-Time homeless counts per 1,000 people and the median price-to-income ratio (89% for CoCs with more than 1 million population), substantially higher than any of the other variables.

Source: Census, HUD, and AEI Housing Center.

⁶ Out of a total of 54 variables tested, the single best predictor out of homelessness is the median price-to-income ratio. Across 369 Continuums of Care (CoCs), we find a correlation of 78% between Point-in-Time homeless counts per 1,000 people and the median price-to-income ratio (89% for CoCs with more than 1 million population), substantially higher than any of the other variable. Displacement rate is the number of persons per 1,000 residents that experience homelessness at a Point in Time (PIT). The rate for 2021 is an average of 2020 and 2022 due to interruptions in the count from the pandemic. Displacement pressure is the ratio between median home price and median income. The higher the ratio is, the higher the pressure is. Since 2012, price-to-income ratio has shot up from 3.35 to 4.29 in 2022.

⁷

https://www.realeclearmarkets.com/articles/2023/12/27/hud_homeless_count_fails_to_connect_dots_on_supply_and_displacement_1000856.html

2. In this election year, Congress is feeling the urge to increase the supply of affordable housing. Before taking any action, it should first consider a couple of misconceptions:

Misconception 1: The housing supply shortage is a market failure. Not true, it is a government regulatory failure.

Actions of all levels of government – from the implementation of restrictive zoning laws, the introduction of discretionary reviews in planning, and the rise of environmental laws and other regulations --- have made land scarce and homebuilding expensive. This has restricted private developers from building enough housing to keep up with demand. Today's housing shortage is estimated to be in the millions.⁸

Housing unaffordability is a self-inflicted wound. It stems not from a market failure, but from a government regulatory failure that has created a massive supply-demand imbalance that has driven home prices and rents higher.

The main culprits that have restricted supply to keep up with demand are:

- The federal government's implementations of single-family detached zoning for nefarious purposes in the 1920s.
- The rise of the Not-In-My-Backyard (NIMBY) movement in the 1950s.
- The rise of the environmental movement in the 1970s.

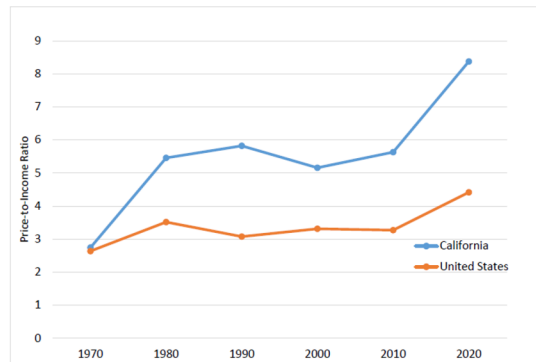
These actions replaced private property rights with communal rights and infringed on the market's ability to respond to price signals. (For more, see appendix 1.)

Nowhere is this more noticeable than in California, which has been at the forefront of many of the trends covered. What is often forgotten is that housing was not always unaffordable in California.⁹ In 1970, the price-to-income ratio for California was largely affordable while being on par with the rest of the country (2.6). Yet by 2020, the price-to-income ratio in California was nearly double the level of the entire country (8.4 relative to 4.4 for the US).

⁸ See for example, Kingsella, Mike, Kolachalam, Anjali, and Leah MacArthur. "Housing Underproduction in the U.S. 2023." 2023., Khater, Sam. "One of the Most Important Challenges our Industry will Face: The Significant Shortage of Starter Homes." Freddie Mac: Perspectives, 23 Apr. 2021., or Corinth, Kevin, and Hugo Dante. "The Understated 'Housing Shortage' in the United States." IZA Working Paper, 2022.

⁹ We calculate the ratio of these numbers, using median house prices as a numerator and median household incomes as the denominator. We use national median existing single-family homes prices from the National Association of Realtors and California Association of Realtors from [this source for 1970, 1980, 1990, and 2000](#). For 2010 and 2020, we average monthly median home values from the California Association of Realtors' [historical dataset](#), while we found 2020 median home values from the National Association of Realtors' [most recent monthly report](#) and estimate 2010 values [from this data visualization](#). We use median household income for California and the United States from the [US Census](#) for 1990, 2000, 2010, and [2020](#). We find 1980 median household incomes from table B.79 from NHGIS. We use median national household incomes from 1970 [Census data](#). For California, we are missing median household incomes in 1970, thus we impute household income using the ratio (1.03) of US-California household incomes in 1980.

Figure: Median Price-to-Median Income Ratios for California and the United States



Source: National Association of Realtors, California Association of Realtors, US Census, AEI Housing Center.

The conditions that have made California housing prices so high are spreading elsewhere. Across the country, the proliferation of land use regulations prevents the market from building more housing – particularly in high-demand places with well-paying jobs.

Additionally, the building industry has not fully recovered from the devastation of the Great Financial Crisis, thus further dampening housing construction. Then over the past couple of years, the Fed's rate policies first kept rates too low for too long before reversing course abruptly. Since many people refinanced during this period of low mortgage rates, many homeowners are locked-in, unwilling or unable to move. This effect has likely removed 100,000s of units from the market for years to come.

Despite all this, one thing is certain: Federal efforts to build more affordable housing have fallen flat for decades. This issue is not because of a lack of funds. (More on this below.) To achieve broad-based affordability, we need to unleash the private sector. Supply reforms in areas where they have been properly implemented have shown to result in meaningful supply additions. (More on this below).

Misconception 2: The federal government can fix – or at least ameliorate - this shortage. Not true.

The federal government's track record in housing supply interventions is poor. Just consider how public housing, which is overseen and regulated by the Department of Housing and Urban Development (HUD), is crumbling. Or how the Federal Housing Administration's (FHA) expansion into high-risk single-family and multifamily insured lending ended up devastating whole communities during the late-1960s and early-1970s. (For more, see appendix 2.)

Likewise, the Low-Income Housing Tax Credit (LIHTC), which was established in 1986 to combat the lack of affordable housing, has done little to increase the supply of housing. Passed by Congress in 1986, LIHTC subsidizes expensive housing made affordable with massive subsidies. For example in California, it

now routinely costs [1 million](#) dollars to build just one unit.¹⁰ Given the amount of money at stake, it should come as no surprise that the program is also [complex and corruption](#) prone.

But since LIHTC funds are allocated to every state, largely based on population, the program attracts bipartisan support despite it doing next to nothing to increase the supply of housing. According to [one study](#), almost all LIHTC development would have been built by the market without any subsidies.¹¹

If that's not enough, LIHTC also limits social mobility by creating the perverse incentive for families to maintain incomes below the threshold in order to qualify for an apartment. This undermines the job prospects of parents and the long-run success of children.

In addition, LIHTC has serious design flaws:

- LIHTC is [costly, complex, and corruption prone](#).¹² It builds expensive housing only made affordable by layering on subsidy upon subsidy. As the [LA Times](#) reports, "Affordable housing in California now routinely tops \$1 million per apartment to build."¹³
- LIHTC requires other subsidies, primarily the federal housing voucher program. The dirty secret of LIHTC is that its subsidized rents are often still so high. For 2021 [HUD](#) reported that over 50 percent of LIHTC households reporting were also receiving rental assistance.
- LIHTC requires multiple layers of generous federal, state and local subsidies, the [complexity](#) of which caters to specialized and generally larger developers, along with legions of consultants to navigate the red tape of the various subsidy programs.¹⁴
- LIHTC benefits Fannie Mae and Freddie Mac, who are the largest financiers of LIHTC projects.
- The LIHTC program has worked to reinforce racial discrimination. The City of Chicago reported that "since 2000, the majority of Chicago's LIHTC developments have been new construction located in high-poverty, majority Black areas, with a quarter located in higher-income "opportunity" areas."¹⁵
- LIHTC also limits social mobility by creating the perverse incentive for families to maintain incomes below the threshold to qualify for an apartment. This undermines the job prospects of parents and the long-run success of children.
- LIHTC fails to make housing more affordable and does little to nothing to increase the supply of housing. Instead, it simply [crowds](#) out the construction of market-rate housing for other middle-class families who do not receive the benefit, putting even more upward pressure on the rents

¹⁰ <https://www.latimes.com/homeless-housing/story/2022-06-20/california-affordable-housing-cost-1-million-apartment>

¹¹ Eriksen, Michael D., and Stuart S. Rosenthal. "Crowd out Effects of Place-Based Subsidized Rental Housing: New Evidence from the LIHTC Program." *Journal of Public Economics* 94, no. 11–12 (2010): 953–66. <https://doi.org/10.1016/j.jpubeco.2010.07.002>.

¹² <https://www.cato.org/tax-budget-bulletin/low-income-housing-tax-credit-costly-complex-corruption-prone>

¹³ <https://www.latimes.com/homeless-housing/story/2022-06-20/california-affordable-housing-cost-1-million-apartment>

¹⁴ <https://www.aei.org/research-products/testimony/the-cost-of-complexity-in-low-income-housing-assistance/>

¹⁵ <https://www.chicago.gov/city/en/depts/doh/provdrs/developers/news/2021/march/the-chicago-department-of-housing-announces-new-racial-equity-fo.html>

they are forced to pay.¹⁶ According to [one study](#), almost all LIHTC development is accompanied by a commensurate decrease in the construction of market-rate housing.¹⁷ This particularly hurts smaller, naturally affordable multifamily housing developers as they are pushed out of the market because they can't handle the red tape.

What is undeniable is that many of the housing problems we face today have occurred, not in spite of federal policies, but because of them.¹⁸ This should serve as a warning for future proposals.

Misconception 3: The only way to add to affordable housing is through subsidies and government programs. Not true.

The literature is clear that the most effective way to add affordable housing is to build a lot of market-rate housing, which decreases the cost of both rented and owned homes. Building supply at middle price points is both naturally affordable and inclusionary. (More on this below.) More supply helps tamp down the house price and rent appreciation of existing homes.

Rigorous research conclusively shows the fallacy of [supply skeptics'](#) view that adding more supply does not slow home prices and rent growth.¹⁹ An [imbalance](#) between the supply of homes and employment-driven demand is the main cause of metro home price appreciation (HPA).²⁰ Greater levels of new construction helps keep HPA more in line with income growth. If a metro adds lots of new employees, it also needs to add lots of new housing, and if you get behind, catch up by building more housing.

Our research has furthermore demonstrated that faster rates of new home construction can help tamp down metro home price appreciation. This is particularly true, and important, for faster-growing metros. The evidence is clear: Building more housing reins in home price increases, thus decreasing housing pressures on residents. (See next figure.)

¹⁶ Corinth, Kevin, and Amelia Irvine. "Jue Insight: The Effect of Relaxing Local Housing Market Regulations on Federal Rental Assistance Programs." *Journal of Urban Economics* 136 (2023): 103572. <https://doi.org/10.1016/j.jue.2023.103572>.

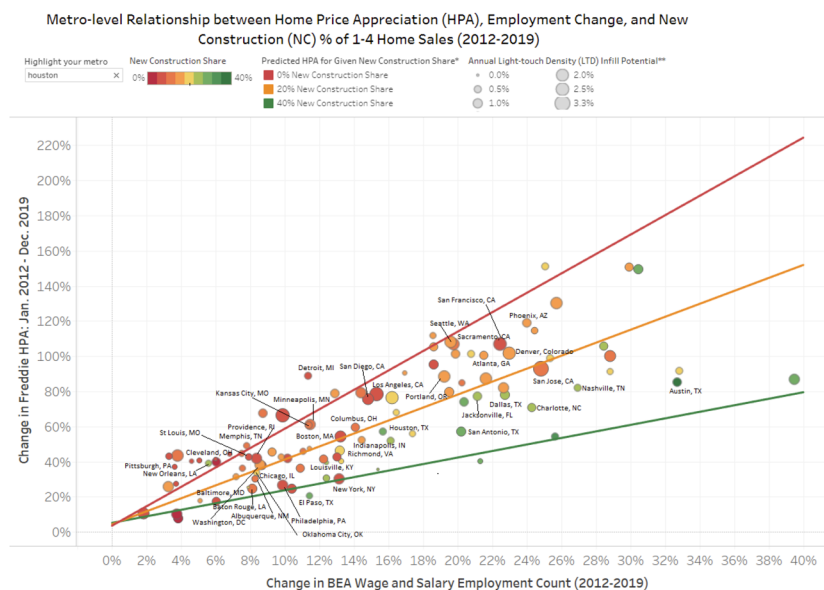
¹⁷ Eriksen, Michael D., and Stuart S. Rosenthal. "Crowd out Effects of Place-Based Subsidized Rental Housing: New Evidence from the LIHTC Program." *Journal of Public Economics* 94, no. 11–12 (2010): 953–66. <https://doi.org/10.1016/j.jpubeco.2010.07.002>.

¹⁸ While our research has found no evidence of systemic racism on the part of residential real estate appraisers or FHA's lenders, we have found evidence of vestiges of separate but equal policies promoted by the federal government and of ongoing federal policies that put low-income households in harm's way.

¹⁹ Been, Vicki and Ellen, Ingrid Gould and O'Regan, Katherine M., *Supply Skepticism Revisited* (November 10, 2023). NYU Law and Economics Research Paper Forthcoming, Available at SSRN: <https://ssrn.com/abstract=4629628> or <http://dx.doi.org/10.2139/ssrn.4629628>

²⁰ https://heat.aeihousingcenter.org/toolkit/supply_demand

Figure: Metro-level Relationship between Home Price Appreciation (HPA), Employment Change, and New Construction (NC) % of 1-4 Home Sales (2012-2019)



Source: BEA, Freddie Mac, and AEI Housing Center.

As new market-rate housing is built, higher-income households will move into the new units, freeing up their now vacant lower-priced unit. This process—known as filtering—repeats itself further down the home price ladder, as commonly seen in the new and used car market.

In the case of housing, new construction has not met demand, leading to a breakdown of the filtering process – or even a reversal, where lower income households are selling their older homes to higher income households. No wonder there is so little affordable housing available.

Recently, “the battle cry of the low-income housing advocates has become that you can’t build your way to affordability... [Sightline Institute](#) has tackled that notion directly. Not only can you build your way to affordable housing, in fact, building more supply may be the only effective way to reduce the pressure that is driving up rents and producing displacement. There’s ample evidence for this position, but there’s still the strong sense that addressing our housing problem by building more high-end housing is a cynical and ineffective kind of “trickle down” economics. ... When there isn’t enough supply, demand from higher income households floods down to older housing stock, driving up rents and reducing housing options for those with lesser means.”²¹ ([City Observatory](#))

²¹ <https://cityobservatory.org/the-end-of-the-housing-supply-debate-maybe/>

On this point of “trickle down” economics or filtering, Richard Ratcliff (1949:321) observed, “[I]t is not economically feasible to build and operate new rental properties under a rent scale that is within the reach of low-income families.”²² However, a healthy market will provide market-rate low-income housing through a process known as “filtering,” and new housing construction can contribute to broad-based housing affordability without needing to provide publicly funded affordable housing.

Filtering works in four ways to keep home prices naturally affordable and displacement pressures low:

1. Under normal circumstances, homes move down in quality and value as they age (Ratcliff, 1949: 321).
2. On average, a homebuyer has a lower income than the sellers of the same home up and down the price range. This gap is wider and the buyer’s income relative to the Area Median Income (AMI) is lower when more of the supply is affordable.
3. Naturally affordable homes contribute the most to the filtering process, as they quickly free up units for lower-income households. Units added at the highest price points require more households to move up before freeing an affordable unit; on the other hand, units at moderate price points require fewer households to move up before freeing an affordable unit.
4. As more supply is built, home price appreciation decelerates and rises at a rate more in line with wage growth. In turn, this relationship allows more filtering to occur, as the expanded stock of homes is more naturally affordable than if no additional stock was available.

This process can be better illustrated by looking at a market with a lot of filtering: the car market. With few barriers to increasing new car supply, additional cars can be built quickly at various price points in response to increased demand.²³ Although a lower-income household cannot afford a new Mercedes due to the high cost, they may be able to afford a 15-year-old Mercedes or a 5-year-old Chevrolet, which sell at a fraction of the new Mercedes. The new and used car market has naturally affordable options for households of all different economic means. In a functioning market, with new supply added at various price points, filtering ensures that households of virtually all incomes can afford a serviceable car and easily change cars as they move up the economic ladder.

If car manufacturers could only legally build Ferraris, fewer new cars would be sold because fewer people could afford the high-priced Ferraris. With fewer cars being added to the market, the prices of existing cars would skyrocket. People willing to upgrade to a newer car would struggle to find a seller. The filtering-down of used cars would slow to a trickle. Cars that would otherwise be demolished would remain on the roads because they would become more valuable. The hypothetical case of only allowing the manufacturing of Ferraris is not dissimilar to the housing market, in which single-family detached (SFD) zoning and discretionary review have all but outlawed the production of naturally affordable housing.

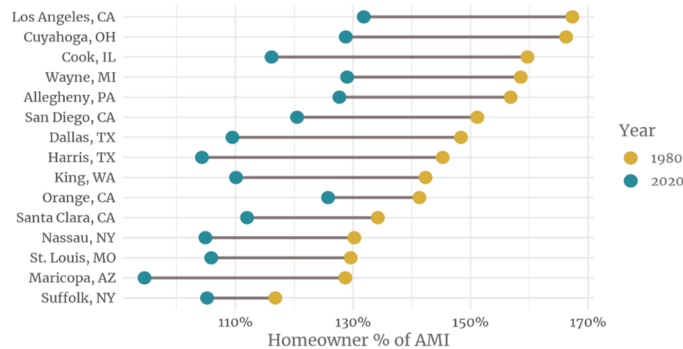
To observe filtering effects, the income of occupant households can be calculated relative to their county median income in both 1980 and 2020 for single-family attached and detached homes built from

²² The lack of new low-rent housing is essentially the result of the inherently costly nature of housing.

²³ <https://www.kbb.com/cars-for-sale/new/washington-dc?searchRadius=75>; This filtering car market did not work during the [COVID-19 pandemic](#), as a chip shortage constrained new car construction, increasing the price of the existing used car stock.

1960 through 1979 for 100 counties. Filtering can be tracked over time because most of these homes still exist. The next Figure shows that for the 15 largest counties (by 1980 single-family units) across the board, housing built for relatively affluent households filtered down to less-affluent households by 2020, and housing built for households closer to the area median income filtered down to lower-income households.

Figure: Single-Family Detached & Attached Units Build 1960–1979



AMI = County Area Median Income of Households.

Note: Data show the top 15 tracked counties by number of single-family units in 1980.

Sources: AEI Housing Center; IPUMS; U.S. Census Bureau

Zoning, and SFD zoning in particular, artificially limits the highest and best use of the land. (More on this below). Additional units cannot be built on already developed, high-demand land; thus, home prices rise, and the filtering process breaks down. This process worsens when existing housing units are converted to McMansions.

Although newly built market-rate housing may not be affordable to many people with low incomes, an abundance of moderately priced new housing has been shown to enable greater homeownership opportunities for moderate-income, younger, and more diverse borrowers through filtering. (See the evidence on Seattle in appendix 1). Furthermore, the additional supply can keep home price appreciation more in line with wage growth. The evidence is clear: Freed from governmental regulatory failures, markets can provide abundant housing for everyone through filtering.

Light-touch Density (LTD) is a straightforward solution to most of the country's housing issues. It represents the low-hanging fruit in zoning reform, as it allows for modestly higher density than SFD zoning in many different ways, providing options for a jurisdiction to implement at least one.

For urban areas or nearby suburbs already built up, replacing SFD units with more LTD units or adding more LTD units to existing single-family units increases the units per acre, creating more naturally affordable units. The following are ways to increase the housing stock in infill areas:

- Existing single-family detached units can add a junior accessory dwelling unit (JADU) within the existing structure or build a separate freestanding detached or attached ADU on the same lot.²⁴
- Older infill units can be torn down and replaced with a new duplex, triplex, fourplex, townhome, small multifamily structure, or cottage court.
- Single land parcels can be divided into two, and an additional single-family unit or multiplex unit could be built on the new parcel and sold off separately.

Builders can construct more affordable LTD units in outer suburbs or undeveloped areas—also called greenfield land by:

- Increasing the allowed density of undeveloped land.
- Adding additional floors or reducing the size of units in a planned apartment building to enable the land to be used more efficiently, decreasing the price point for each unit on both greenfield and infill projects.

Implementing these LTD zoning reforms would align market incentives with the need for more housing, resulting in greater housing supply at lower price points for both renters and owners, thus relieving displacement pressures. LTD represents a gradual return to the housing typographies that were present before the widespread implementation of SFD zoning.²⁵

On the basis of multiple case studies and conditions favorable to LTD, approximately 2 to 3 percent of eligible units could be converted annually to LTD. This could add between 260,000 (at a density of up to two units per lot) and 930,000 (at up to eight units per lot) net new units per year nationwide over the next 30 to 40 years.²⁶ The conversion to more LTD homes within a neighborhood is slow and takes place over decades because a homeowner generally needs to sell before a builder can come in and convert a home.

Whether called LTD, missing middle, or gentle density, 2023 demonstrated bipartisan support for adding naturally affordable housing choices, reinforcing a growing [tailwind](#) of legislative accomplishments.²⁷ We need to build on these successes and convince more to follow suit.

²⁴ With either a JADU or an ADU, the original structure is left intact and the JADU or ADU is sold in combination with the main structure. The gross living area (GLA) of the JADU or the ADU can vary from small to large and is not a defining attribute unless GLA is set by statute or ordinance.

²⁵ The share of LTD as a percentage of the national housing stock has shrunk drastically over time as local zoning ordinances enacted by municipal governments prohibited their construction on much or all of their land starting in 1920. From 1940 to 2018, the combined share of single-family attached units (SFA) and two- to four-unit structures as a share of all one- to four-unit structures declined from 26.5 percent in 1940 to 18.4 percent in 2019; had the 1940 percentage of LTD housing remained unchanged, the nation's housing supply would have increased by some 8 million units.

²⁶ These estimates resulted from evaluating every single-family residential property in the United States for its potential for LTD. For older residential properties on lots of sufficient size, an estimate is first made for an existing structure value, allowing an estimate of the current land share. For properties with a high enough land share, calculations are made to determine if a teardown and subsequent reconstruction of two to eight units (of varying sizes) on the same lots is feasible by assuming the construction cost per square foot of gross living area by using new single-family detached housing units built in the same area over the past 7–10 years. For more on the methodology, see appendix A.

²⁷ Washington State, [Montana](#), and Vermont joined [Oregon](#) (2019) and [California](#) (2021) in implementing LTD. Austin, TX; St. Paul, MN; Charlotte, NC; Arlington, VA; Alexandria, VA and many other cities also took steps to

LTD needs to be combined with Light-touch Processing and Light-touch Permitting following the “Keep it Simple and Short” (KISS) approach.

The economics of housing construction favor moderately higher density and by-right LTD. These policies would allow for higher and better land use, unleashing what Strong Towns calls a “[swarm](#)” of property owners, small-scale builders, and local contractors to take on small-scale LTD conversion projects.²⁸ Evidence from AEI Housing Center case studies indicates that small-scale builders, many of whom are disproportionately minority-owned, carry out the majority of these LTD projects. To achieve this result, here are the lessons learned.

- What is required?
 - By-right approval of LTD housing
 - Simple rules regarding the number of units, floor-area ratio, and height restrictions permitted in a given lot.
- What helps?
 - Relaxing parking requirements
 - Instituting shot clocks, which can accelerate the timelines in slow-moving areas and create more dependable schedules for builders and homeowners attempting to plan for future construction. (Shot clocks are deadlines for a municipality to act on a plan. If a deadline is missed, the petitioner can assume the plan is approved.)
 - Preapproved design standards
- What hurts?
 - Low maximum floor-area ratio requirements
 - High minimum lot size requirements
 - Outsized parking or other requirements that increase construction costs or de facto prevent building LTD entirely.
 - Income limits and affordable housing fees and mandates
 - Rental bans
 - Owner-occupancy requirements
 - Rent controls
 - Inclusionary zoning
 - Impact fees
 - Anything not required for single-family homes

Among the “5 Ls” of construction-- land, laws, lumber, lending, labor-- land use laws are by far the biggest impediment to the private sector’s ability to build more naturally affordable and inclusionary housing.

Our findings from various case studies across the country and other places demonstrate that LTD, when implemented by-right and following the KISS principle, can produce a significant supply response entirely through market forces. We estimate that each year LTD can add around 2% to the housing stock.

unleash the private market. <https://www.aei.org/events/harnessing-tailwinds-on-state-and-local-land-use-reform-a-bipartisan-playbook/>

²⁸ <https://www.strongtowns.org/journal/2021/2/3/unleash-the-swarm>

Table 1. Light-Touch Density Case Studies

Case Study	Study Topic	Finding(s)
Seattle	Housing outcomes in the Lowrise Multifamily (allows for LTD) vs. SFD zone	LTD added ~3% to housing stock per year.
		LTD units are naturally affordable.
	The effect of a 2019 inclusionary zoning requirement on townhome development	Requirement halted most LTD development.
Palisades Park	Housing outcomes in Palisades Park vs. surrounding boroughs	LTD added ~2% to housing stock per year, which supported population growth.
		Lower property taxes and greater economic vibrancy resulted.
		Although legally permissible, procedural barriers such as greater lot size regulations stymie LTD.
Houston	Housing outcomes after Houston reduced the minimum lot size requirements within the I-610 Inner Loop	LTD added ~2% to housing stock per year.
		LTD units are naturally affordable.
Charlotte	Micro-level analysis of housing types in the R-22 vs. R-5 zone	Greater housing type diversity from LTD leads to lower-priced homes and greater economic diversity of residents.
Tokyo, Japan	Housing affordability and supply in Tokyo vs. other major global metropolitan areas Tokyo's zoning code	LTD added ~2% to the housing stock.
		A market and property rights-based system governs land use and zoning, with minimal opportunity for interference from local homeowners, neighborhood groups, or elected officials.
Relationship Between Density, Gross Living Area (GLA), and Price	More than 500 counties in the largest 200 metropolitan areas	For single-family detached and attached homes built between 2000 and 2022, the greater the as-built density (number of units built per acre), the lower the GLA and home price. These reductions in price stem from the smaller GLA and lot size.
Rent by Structure Type and Year Built	50 states and the District of Columbia	LTD units are naturally affordable and inclusionary. Recently built (2010–21) LTD structures between 2 and 4 units have rents significantly lower than recently built 20+ units or single-family units, respectively.
Filtering	Homebuyer income as a percentage of seller income for more than 600,000 sales	Homebuyers tend to have lower incomes than sellers. Metropolitan areas with more economical homes tend to show greater levels of filtering down. Many of the metropolitan areas with modest filtering have high home values.
	Income of occupant households relative to their county median income in both 1980 and 2020 for single-family attached and detached homes built from 1960–79 for 100 counties	Across the board, older housing built for relatively affluent households had filtered down to less affluent households by 2020, and housing built for households closer to the area median income had filtered down to lower-income households.

Source: AEI Housing Center

Misconception 4: Institutional investors, junk fees, rent pricing algorithms, Airbnb, foreign buyers, or vacant homes are responsible for widespread housing unaffordability. Not true.

Governments at all levels should stop deflecting from their own policy mistakes by blaming the private sector for the market distortions they have created. While these entities make easy scapegoats, they are at best symptoms of the supply-demand imbalance.

The government regulatory failure described has been decades in the making. Institutional investors, junk fees, rent pricing algorithms, Airbnb, foreign buyers, or vacant homes are not responsible for widespread housing unaffordability. Housing was already unaffordable even before many of these entities were created. Furthermore, affordability has significantly worsened since the pandemic across the entire country, yet these entities are only present in a few markets or affect subsets of certain markets. (See appendix 3 for more.)

Misconception 5: Government can make housing affordable through various demand subsidies. Not true.

Such practices come in many forms -- looser lending policies, lower mortgage premia, downpayment assistance, deeper vouchers, etc. What these policies have in common is that they increase demand against a severely limited supply. This benefits those that own homes or those that receive the subsidy, but it raises housing costs for all.

The housing market is becoming less affordable because of misguided policies that boost demand. Such policies invariably encounter the paradox of accessible lending: When supply is constrained, credit easing and easy money will get capitalized into prices, making entry-level homes less, not more, affordable.

Credit easing or easy money merely permits one borrower to bid up the price against other potential borrowers for a scarce good.²⁹ Thus, much of the credit easing or easy money that federal policies provide are quickly capitalized into higher home prices. This is especially pertinent for entry-level homes, which are perennially in short supply. This puts upward pressure on home prices, does not expand access, and is dangerous-- concepts we have had to learn and relearn.

Consider just a few examples that should be discontinued or severely curtailed:

Federal housing policies:

- Foreclosure-prone affordable housing policies began in 1954, when Congress authorized FHA to insure the low downpayment, 30-year loan to buy an existing home, which primarily targeted low-income and minority borrowers.
 - These policies have subsidized debt by providing excessive leverage.
 - Coupled with the supply shortage, the increased demand from additional leverage has fueled unsustainable lending and higher home prices.
 - This is the paradox of accessible lending: When supply is constrained, credit easing will make entry-level homes less affordable.

²⁹ Fed Chairman Marriner Eccles, Federal Reserve Bulletin, The Current Inflation Problem, 1947, https://fraser.stlouisfed.org/files/docs/publications/FRB/1940s/frb_121947.pdf

- During the Financial Crisis, these policies contributed to 12 million foreclosures and other forced dispositions, which were proportionally higher in low-income and minority neighborhoods.
- These policies have not built generational wealth and despite the government's efforts over the last 60 years, homeownership today stands at about the same level as in 1964.
- Repeated FHA mortgage insurance premium cuts (2015 & 2023)
 - Our [research](#) on the 2015 cut estimates that home prices rose broadly, particularly for about 500,000 non-FHA borrowers first-time homebuyers. Each of these non-FHA homebuyers paid approximately \$6,200 extra per house, a total extra payment of about \$3.1 billion. From a cost-benefit perspective, this averages to an incredible \$180,000 for each of the roughly 17,000 new FHA first-time buyers!³⁰
 - Despite the damning evidence, the FHA undertook another MIP cut in 2023 during an even more constrained housing market. As expected, FHA's once again share ballooned, as it poached business for other governmental agencies.

Furthermore, the administration has implemented or is considering a plethora of far-reaching changes to the housing finance system that will reshape housing finance and that will have many unintended consequences. (For more examples, see appendix 4.)

Federal Reserve policies:

The Fed's easy monetary policy during a seller's market has contributed to rapidly rising home prices and inflation.

- Quantitative Easing (QE) 3 announced in September 2012 coincides with the start of the current housing boom.
- QE4 announced in March 2020: While justified at the beginning of the pandemic, it became quickly clear that the housing and labor markets did not need the massive support. The Fed is finally, albeit belatedly and slowly, unwinding the GSE asset purchases.
- Artificially low interest rates: All else equal a 1 ppt. drop in the mortgage rates translate into a 9% increase in buying power. Since all borrowers see a decrease in monthly housing costs from the lower interest rate, most of buying power gets capitalized into higher home prices, thus benefitting the home seller, not the buyer. In addition, lower rates attract new buyers into the market (second or investment homebuyers, renters, etc.), thus also increasing the pool of potential buyers.

For more on the Fed's policies, see Appendix 5.

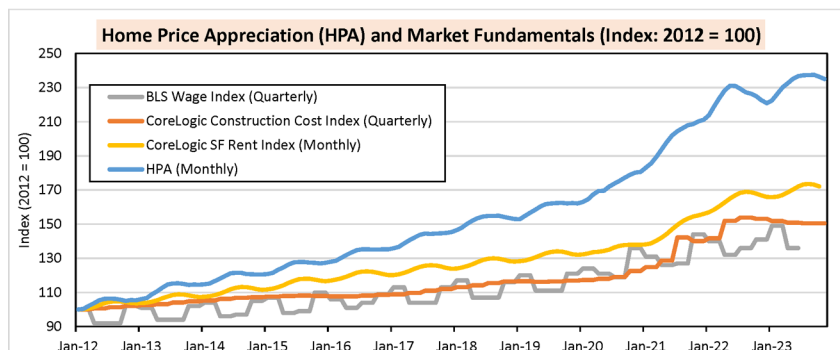
Policies by the federal government and Federal Reserve have been the culprit for crowding lower-income Americans out of the housing market. Ill-advised government policies and interventions have broken the housing ladder by inflating home prices. This has had a disparate impact on low-income and minority households that want to purchase at the entry-level.

Here are some examples on the effects of the single-family housing boom, which started in 2012, and had already manifested itself long before the worst excesses of the pandemic:

³⁰ <https://www.aei.org/wp-content/uploads/2018/01/Davis-Oliner-Peter-Pinto-Jan-2018-AEI-WP-rev.pdf>

- Since 2012, home price appreciation has far outpaced the growth in market fundamentals (wages, construction cost, rents).

Figure 5: Home Price Appreciation (HPA) and Market Fundamentals (Index: 2012=100)



Note: Data are for the entire country. Wage data come from the Quarterly Census of Employment Wages (QCEW). Source: CoreLogic, BLS, and AEI Housing Center, www.AEI.org/housing.

- Since 2012, home prices have appreciated 135%. Entry-level prices are up slightly more (144%).
- Home price appreciation (HPA) has further accelerated in the aftermath of the pandemic.
 - Since Jan. 2020 prices are up 44%.
- Affordability has been worsening with the median price to median income ratio increasing from 3.35 in 2012 to 4.29 in 2022.³¹

Because of this boom, home prices levels will be higher for years, which means that all subsequent buyers have to match that level.

³¹ <https://www.aei.org/wp-content/uploads/2018/01/Davis-Oliner-Peter-Pinto-Jan-2018-AEI-WP-rev.pdf>

3. **Having dispelled these misconceptions, the solution to today's housing shortage becomes clear.**

1) **The federal government needs to stay out.**

The federal government has a poor track record with housing reform, and there is little that the federal government can or should do that would not make the situation worse or violate the 10th amendment. Since there is no quick fix, it is best to give states and cities time to work out their supply shortages through reforms that unleash the free market through zoning and land use reforms. The good news is that many jurisdictions are moving in the right direction and the pace is quickening.

On the lending side, the federal government also needs to abstain from the disproven notion of making housing more affordable through subsidies (the paradox of accessible lending).

What federal entities should do:

- **Congress should not expand, but eliminate the Low-Income Housing Tax Credit (LIHTC)**

For the reasons outlined above.

- **Congress should not establish the Workforce Housing Tax Credit (WFHTC)**

Despite ample research on the impact of LIHTC, policymakers are seeking to make a bad situation worse by expanding it to middle-income tenants as well. The WFHTC bill proposes to tackle the affordability problems by extending government subsidies further up the income distribution, by offering tax credits to apartment builders who promise to charge their tenants "affordable" rents. It would operate almost exactly like the LIHTC, but instead of restricting the benefits to families with incomes below 60% of the area median, it would make all families with incomes below 100% of the area median eligible. We estimate that up to 76% of renters will qualify, rather than 53% under LIHTC.

Affordable housing programs only work by layering multiple generous rounds of federal, state, and local subsidies on top of each other. But that's not all: The dirty secret of LIHTC is that its subsidized rents are often still so high. For 2021 [HUD](#) reported that over 50 percent of LIHTC households reporting were also receiving rental assistance.³² The WFHTC would give new impetus to expand all these programs along with growing the quasi-governmental mortgage giants, Fannie Mae and Freddie Mac, who happen to be largest financiers of LIHTC projects. It would be bad policy for Congress to pass this bill.

- **Congress should open federal land for housing development and reduce housing construction costs.**
 - Senator Mike Lee's [Helping Open Underutilized Space to Ensure Shelter Act of 2022 \(HOUSES Act\)](#) is a "unique way to alleviate the housing shortage without interfering with state and local decision-making, by allowing states to purchase certain general public lands for the purpose of developing new housing," according to a Joint Economic Committee

³² <https://www.huduser.gov/portal/Datasets/lihtc/2021-LIHTC-Tenant-Tables.pdf>

report on the legislation.³³ Hugo Dante and Kevin Corinth estimate that the HOUSES Act could lead to the construction of 2.7 million more homes in the United States, which would go a long way to close the supply shortage.

- This federal land should be auctioned off to developers, with the stipulation that market-rate housing must be built. This would particularly help the Western U.S. as the federal government owns large swaths of land there. The passage of the [Southern Nevada Public Land Management Act](#), which enabled the Bureau of Land Management to sell off federal lands around Clark County, NV starting in 1998, provides a legislative blueprint of how this could be done. This [precedent](#) was set by Sen. Harry Reid, who freed up federal land for the Las Vegas metro.
- **Congress should lower or do away with tariffs on construction materials that add [thousands of dollars](#) to the cost of construction, which home builders pass on to consumers.**³⁴
- **[The administration should not](#) restrict logging on national forests, as this would keep or further inflate lumber costs.**³⁵ Instead, it should open more areas for logging.
- **Congress should eliminate Davis-Bacon prevailing wage requirements on residential construction.** The Associated Builders and Contractors [summarized](#) the impact of prevailing wages:
 - [“The Congressional Budget Office estimates](#) that repealing the 1930s-era Davis-Bacon Act would save the federal government \$24.3 billion in spending between 2023 and 2032. [A May 2022 study](#) found that the Davis-Bacon Act costs taxpayers an extra \$21 billion a year, increases the price tag of construction projects by at least 7.2% and inflates construction workforce wages by 20.2%, compared to local market averages, if the DOL calculated prevailing wages using modern and scientific methodology via the U.S. Bureau of Labor Statistics.”³⁶
 - The Turner Center at the University of California Berkley [found that](#) “projects with prevailing wage requirements cost an average of \$30 more per square foot than those without wage requirements, after controlling for whether or not a project was affordable, as well as project size, region, construction type, and the year construction started.”³⁷
- **Congress should eliminate the [mortgage interest tax deduction on second homes](#), which subsidizes the purchase of second homes, thus increasing demand for limited housing supply.**³⁸
 - A conservative estimate is that over 10 years about 600,000 second homes, or 10% of the outstanding stock, would convert to use by a primary resident. Of new construction sales, perhaps 150,000 units over 10 years would be sold as primary, instead of a secondary

³³ <https://www.jec.senate.gov/public/index.cfm/republicans/2022/8/the-houses-act-addressing-the-national-housing-shortage-by-building-on-federal-land>

³⁴ <https://www.americanactionforum.org/insight/tariffs-are-increasing-homebuilding-costs/>;

<https://www.pwsc.com/how-are-new-home-builders-affected-by-tariffs/>

³⁵ <https://www.washingtonpost.com/climate-environment/2023/12/19/old-growth-logging-forest-service>

³⁶ <https://www.abc.org/News-Media/Newsline/dol-increases-costs-for-contractors-and-taxpayers-with-davis-bacon-final-rule>

³⁷ <https://turnercenter.berkeley.edu/research-and-policy/hard-construction-costs-apartments-california/>

³⁸ <https://www.wsj.com/articles/to-spur-homeownership-stop-subsidizing-it-1512432498>

residence. In total, this small policy change may add the equivalent of a full year of new home construction over 10 years.³⁹

- **Congress or the administration should not establish grants for localities that reform their zoning and land use policies.**
 - The devil is always in the details. Where incentives fail, mandates follow. The federal government's solutions to zoning reform will almost invariably have a bias towards heavy-handed government interventions and suffer from poor analysis. It could undo all the progress that some states and cities are making.
 - These proposed solutions will tilt heavily towards expensive and small rental units made affordable by layer upon layer of subsidies and do little to promote naturally affordable, family-sized for sale homes, that will increase homeownership and intergenerational wealth building.
 - It is also highly likely that federal grants will have strings attached, such as an income-based occupancy requirement.
 - A [recent example](#) is an assessment and recommendation published in HUD's clearinghouse for innovative state and local strategies that reduce the impact of regulations and promote affordable housing.⁴⁰ HUD analyzed Seattle's Mandatory Housing Affordability (MHA) fund and concluded it should be implemented by other cities. HUD's assessment ignores historical context and unintended consequences, thereby presenting a one-sided picture. While HUD singles out the "success" of the MHA to create hundreds of new affordable units since its inception in 2019, it ignores the thousands of units that were not built because of it. In that sense, the MHA has undone decades of progress from Seattle's prior upzoning reforms that freed the market from government regulations. (For more, see appendix 4.)
- **Congress should stop pouring tens of billions of dollars into deteriorating public housing, in a futile effort to get public housing right.**
 - Place-based housing subsidies like public housing and LIHTC perpetuate income and racial segregation, and all too often, deteriorate into poorly maintained projects.
- **Congress should not provide tens of billions in subsidies to rehabilitate millions of homes.**
 - The history of subsidized rehabilitation programs is rife with cost overruns, failed efforts, and corruption. Such a program has also never successfully scaled.
- **On the demand side, Congress and the administration should avoid programs that boost demand against a limited supply.**
 - There is a growing consensus that the solution to make housing more affordable is to increase supply, not to ease credit, increase government subsidies, or suppress interest

³⁹ <https://fred.stlouisfed.org/series/HSN1F>

⁴⁰ <https://thehill.com/opinion/4389523-to-fix-their-housing-shortage-in-2024-cities-and-states-should-turn-to-market/>

rates. Even a few progressive think tanks and cities have come around to this view.⁴¹ In order to stop the price spiral that is pricing lower-income Americans out of the housing market and driving up rents, we need to foremost address housing supply and stop demand boosters.

- Unfortunately, the federal government has not yet learned this lesson as both the federal government and Federal Reserve have implemented plenty of demand boosters over the last couple of years and is considering many more. (For a list, see appendix 5).
- **All levels of government should consider reducing regulatory barriers on builders.**
 - According to [two studies](#) by the National Association of Home Builders (NAHB), “Regulations imposed by all levels of government account for \$93,870, or 23.8% of the current average sales price (\$397,300) of a new single-family home” and they account “for an average of 40.6 percent of multifamily development costs.”⁴²
 - These studies don’t break out the cost by entity, but they highlight how some federal policies can affect these higher costs:
 - “State and local jurisdictions adopt and enforce building codes, but federal policymakers are also active in the development of international model codes, and they promote the adoption of certain code editions. For example, the U.S. Department of Energy encourages states to adopt the most stringent versions of the model energy codes. Various policy groups, industry organizations and individual companies also advocate for code changes that promote specific goals. These changes do not always balance the needs of housing affordability and have the potential to drive up construction costs without improving building safety or integrity.”
 - According to the NAHB, changes to building codes over the last 10 years alone have added about 11.1% to the cost of multifamily buildings and over 6% to the cost of single-family homes.
 - In regard to complying with Occupational Safety and Health Administration (OSHA) requirements, the single-family report points to:
 - “particular standards for attempting to regulate risks that don’t really exist in residential construction (e.g. beryllium), imposing costs significantly greater than needed to ensure worker safety (e.g. silica) or accomplishing little beyond driving up recordkeeping costs (e.g. Volks rule).”
 - These regulations don’t apply to construction but according to the NAHB, OSHA standards add about 2.7% to the cost of multifamily buildings and over 1% to the cost of single-family homes. This leaves room to lower costs by cutting some of the red tape.

⁴¹ See for example <https://cityobservatory.org/the-end-of-the-housing-supply-debate-maybe/> and <https://www.sightline.org/2017/09/21/yes-you-can-build-your-way-to-affordable-housing/>.

⁴² <https://www.nahb.org/blog/2021/05/regulatory-costs-add-a-whopping-93870-to-new-home-prices/>; <https://www.nahb.org/news-and-economics/press-releases/2022/06/new-research-shows-regulations-account-for-40-point-6-percent-of-apartment-development-costs>

2) Zoning and land use policies are state and local issues and need to be tackled at these levels of government.

As numerous case studies from around the country have shown, the formula for successful housing reforms is simple:

- Enable by-right zoning,
- Allow greater density in lots of areas particularly around walkable and amenity-rich areas,
- Follow the KISS (Keep it Simple Stupid) principle instead of micromanaging the process, and
- Complement high-rise Transit-oriented Development with Light-touch Density to provide naturally affordable homes and wealth building homeownership opportunities with minimal changes to the built environment.

These actions will unleash the ingenuity of the American people by allowing builders of all sizes to build abundant market-rate housing over time. Fortunately, this is already happening – and entirely without federal involvement. In 2023 alone, Washington, [Montana](#), and Vermont followed [Oregon](#) (2019) and [California](#) (2021) in passing statewide reforms that allow moderately higher density in the form of cost-effective duplexes, triplexes, and townhouses.⁴³

What state and local entities should do:

- **Follow the formula for successful housing reform as outlines above.**
 - Zoning codes and land use regulations limit what types of housing can be built and where, thus making land artificially scarce and expensive.
 - Removing this red tape could unleash the ingenuity of the American people by allowing builders of all sizes –not just those that can navigate the bureaucracy -- to get to work.
- **Study housing reform recommendations and adapt those most applicable to their jurisdiction.**
 - The Mercatus Center’s Salim Furth and Emily Hamilton have compiled an excellent list of recommendations for [state housing reforms](#). The list outlines a menu of useful options such as direct limits on local regulation, streamlining procedures, fiscal innovations, and updating construction standards.⁴⁴
- **Take a look at regulations that impede the construction industry or increase construction costs.**
 - This appears to be happening. Montana offers one example of a state that is already finding creative ways to deal with their housing and labor shortages. For example, at a joint AEI-Progressive Policy Institute event entitled “[Harnessing Tailwinds on State and Local Land-Use Reform: A Bipartisan Playbook](#),” Gov. Greg Gianforte of Montana delivered the keynote

⁴³ Harnessing Tailwinds on State and Local Land-Use Reform: A Bipartisan Playbook - Gov. Gianforte (MT): https://www.youtube.com/watch?v=E8DdGUJAx-s&ab_channel=AmericanEnterpriseInstitute; <https://tcf.org/content/report/a-bipartisan-vision-for-the-benefits-of-middle-housing-the-case-of-oregon/>; <https://www.aei.org/california-housing-conference/>; ⁴³

⁴⁴ <https://www.mercatus.org/research/policy-briefs/housing-reform-states-menu-options-2023>

on the “Montana Miracle”—the successful passage of light-touch density and other market-oriented, supply-stimulating policies during 2023’s legislative session.⁴⁵

- Governor Gianforte overviewed Montana’s latest efforts to expand the state’s construction workforce through workforce education and regulatory reform. Per Montana law, companies that sponsor an employee’s trade education are eligible to receive a 50% educational reimbursement. In addition, the journeyman to apprentice ratio changed from 2:1 to 1:2, which will increase the number of carpenters, plumbers, and electricians needed to build more housing. Then to address the lack of development specifically in rural and frontier areas, a modular housing company, Dvele, was recruited. With the additional tradesman and the capacity for modular housing construction, areas that do not have local construction companies – even in remote areas – can build new housing supply.
- The state was also busy removing red tape with significant reforms to zoning and land-use regulations. First, ADUs and duplexes are allowed across the state, a potential boon to Light-touch Density construction. Second, land-use regulations were reformed to speed up the permitting process. Third, by-right zoning was legalized in 10 of Montana’s largest cities and counties to eliminate the uncertainty of individual development projects. Fourth, standards for design review must now be objective, standardized, and necessary to protect public health and safety.
- When asked about any help from the federal government, the governor responded that the state had it covered. This shows that the states as the laboratories of democracy are finding creative ways to address housing and labor shortages, even without – or particularly because of a lack of – the federal government’s involvement.
- Once a developer has secured the land, regulations from all levels of government – some useful without a doubt, but not all—add [sizeable costs](#) to build. Add laws that limit returns like eviction restrictions or outright bans, or rent control, and it’s no wonder that many private projects don’t pencil out.
- **Beware of federal involvement to influence state and local reform movements.**
 - This would result in complex, one-size-fits all solutions that violate the KISS principle and therefore perpetuate the housing supply problem.

Housing unaffordability is a self-inflicted wound, stemming from a government regulatory failure that perpetuates a massive supply-demand imbalance. This has resulted in higher home prices and rents relative to incomes. State and local supply reforms require no taxpayer subsidies and in the few areas where they have been implemented, they have been found to work. If more states and cities sign on, such reforms could provide hundreds of thousands of new homes each year and thus allow more Americans to access their own American Dream.

⁴⁵ <https://www.aei.org/events/harnessing-tailwinds-on-state-and-local-land-use-reform-a-bipartisan-playbook/>

Appendices:

Appendix 1: To Solve the Affordability Problem, Restore the Market Using Light-Touch Density

The overarching goal of policymakers should be to break the primacy of housing planners and return to market principles that largely governed land use before the implementation of widespread SFD zoning and excessive regulation. The tool to achieve this goal is light-touch density zoning, and the following section outlines how and why it leads to more abundant, naturally affordable, and inclusive housing.

What is light-touch density (LTD)?

Light-touch density (LTD) represents the low-hanging fruit in zoning reform, as it allows for modestly higher density than SFD zoning in many different ways, providing options for a jurisdiction to implement at least one.

For urban areas or nearby suburbs already built up, replacing SFD units with more LTD units or adding more LTD units to existing single-family units increases the units per acre, creating more naturally affordable units. The following are ways to increase the housing stock in infill areas:

- Existing single-family detached units can add a junior accessory dwelling unit (JADU) within the existing structure or build a separate freestanding detached or attached ADU on the same lot.⁴⁶
- Older infill units can be torn down and replaced with a new duplex, triplex, fourplex, townhome, small multifamily structure, or cottage court.
- Single land parcels can be divided into two, and an additional single-family unit or multiplex unit could be built on the new parcel and sold off separately.

Builders can construct more affordable LTD units in outer suburbs or undeveloped areas—also called greenfield land:

- Increase the allowed density of undeveloped land.
- For both greenfield and infill projects, add additional floors or reduce the size of units in a planned apartment building to enable the land to be used more efficiently, decreasing the price point for each unit.

Implementing these LTD zoning reforms would align market incentives with the need for more housing, resulting in greater housing supply at lower price points for both renters and owners, thus relieving displacement pressures. LTD represents a gradual return to the housing typographies that were present before the widespread implementation of SFD zoning.⁴⁷

⁴⁶ With either a JADU or an ADU, the original structure is left intact and the JADU or ADU is sold in combination with the main structure. The gross living area (GLA) of the JADU or the ADU can vary from small to large and is not a defining attribute unless GLA is set by statute or ordinance.

⁴⁷ The share of LTD as a percentage of the national housing stock has shrunk drastically over time as local zoning ordinances enacted by municipal governments prohibited their construction on much or all of their land starting in 1920. From 1940 to 2018, the combined share of single-family attached units (SFA) and two- to four-unit structures as a share of all one- to four-unit structures declined from 26.5 percent in 1940 to 18.4 percent in 2019; had the 1940 percentage of LTD housing remained unchanged, the nation's housing supply would have increased by some 8 million units.

On the basis of multiple case studies and conditions favorable to LTD, approximately 2 to 3 percent of eligible units could be converted annually to LTD, which could add between 260,000 (at a density of up to two units per lot) and 930,000 (at up to eight units per lot) net new units per year nationwide over the next 30 to 40 years.⁴⁸ The conversion within a neighborhood is slow and takes place over decades (as seen in Figure 2) because a homeowner generally needs to sell before a builder can come in and convert a home.

Figure 2: An Illustration of Neighborhoods with Light Touch Density



Source: AEI Housing Center

How Light-Touch Density (LTD) Works when Properly Implemented

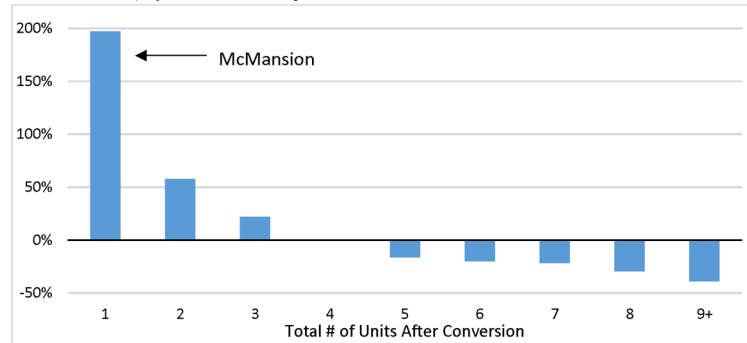
The conversion of older housing stock to newer, more plentiful housing stock releases housing price pressures and decreases displacement pressures. Freed from single-family detached (SFD) zoning and discretionary reviews, such conversion will occur naturally because builder incentives align with the market demand for more moderately priced housing.

A case study from Seattle, which allows LTD in Lowrise Multifamily (LRM) zones, demonstrates that homebuilders will always choose to maximize their profit, which, in this case, includes building moderately priced housing at a greater density. Figure 4 compares the median price of the property that the builder bought and eventually sold for approximately 12,000 conversions at various levels of total units after the conversion. When the builder built a McMansion, presumably because zoning limited the highest and best use, the sales price was almost 200 percent of the original unit price that the builder purchased. At higher units after conversion, that premium drops until the price change level is 0 percent

⁴⁸ These estimates resulted from evaluating every single-family residential property in the United States for its potential for LTD. For older residential properties on lots of sufficient size, an estimate is first made for an existing structure value, allowing an estimate of the current land share. For properties with a high enough land share, calculations are made to determine if a teardown and subsequent reconstruction of two to eight units (of varying sizes) on the same lots is feasible by assuming the construction cost per square foot of gross living area by using new single-family detached housing units built in the same area over the past 7–10 years. For more on the methodology, see appendix A.

at four units, and each unit sells at roughly the same price as the original purchase price. For additional units, the median price of the new units is lower than for the existing unit that the builder replaced. Not only does converting single units to multiple units create more net housing, but the price of housing for each unit goes down as more units are built.

Figure 4: Conversion Properties: Median Price Change Between the Unit Replaced and the Median of the New Units Built, by Total Number of New Units

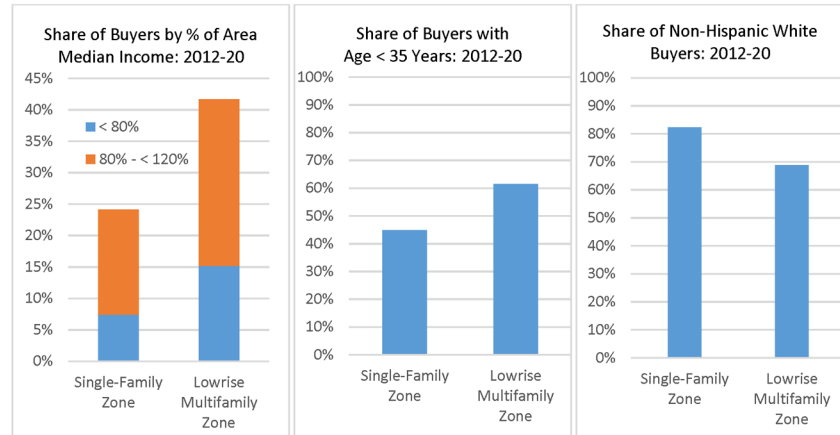


Notes: A conversion is defined as the act of tearing down an existing single-family detached structure and replacing it with a new structure of varying unit totals. Data pertain to more than 3,000 conversions identified in Seattle, which resulted in approximately 12,000 new units from the mid-1990s onward.

Source: AEI Housing Center

The additional moderately priced units also open up greater homeownership opportunities for a wider group of households. Seattle's experience shows that across income levels, age ranges, and racial/ethnic backgrounds, a more diverse group of people can purchase homes in its Lowrise Multifamily zone than in the SFD zone (see Figure 5).

Figure 5: Seattle's LTD Zone Enables Homeownership for a Wider Group of Households



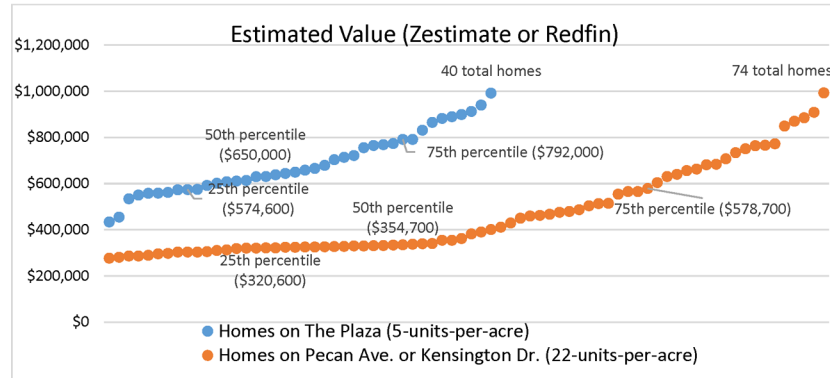
Source: AEI Housing Center

Converting neighborhoods to LTD zoning restores and expands inclusivity because neighborhoods can have various unit types, tenures, and price points in their housing, opening up homeownership opportunities to a wider breadth of buyers. Another example of this process is demonstrated by the Charlotte, North Carolina case study, in which the housing types and socioeconomic backgrounds of people living in two different zoning regimes in the same neighborhood are examined. Both Pecan Avenue and Kensington Drive are zoned for 22 units per acre, or LTD, whereas The Plaza is zoned for 5 units per acre, or SFD.

As a result of the increased density, Pecan and Kensington housing units range from smaller SFD homes on smaller lots to ADUs, duplexes, townhouses, and condominiums. The as-built density for the Pecan and Kensington housing is approximately 11 units per acre, one-half of what is allowed and approximately double the as-built density of The Plaza. The median-priced home on Pecan and Kensington (\$354,700) is below the lowest-priced home on The Plaza (approximately \$410,000). The most expensive homes on both streets are approximately \$1 million, but the least expensive unit on Pecan and Kensington is \$277,000. The housing type diversity enabled by LTD allows a greater range of price points, particularly at the middle and low end. There are more housing units at more affordable prices on Pecan and Kensington, with 39 units valued at less than \$400,000, making the street ideal for first-time buyers (see Figure 6).

According to U.S. Census Bureau data, a greater share of renters and younger residents live on Pecan Avenue and Kensington Drive which suggests that the increased density increases housing access to a wider range of incomes, particularly younger individuals and families with less financial wherewithal. Generally, these groups are among the first to be priced out of lower-density neighborhoods; however, the R-22 MF zoning restored these streets to the pre-1920s status quo, when LTD was intermixed with SFD homes.

Figure 6: Charlotte: R-22 MF Zoning Offers a Wide Range of Price Points Compared with R5-Zoning



Note: Every dot is a house on Pecan Avenue, Kensington Drive, or The Plaza, ordered by estimated value by Zillow or Redfin.

Sources: AEI Housing Center; Zillow, and Redfin.

The positive effect of more housing supply is reflected in the data on housing prices. AEI Housing Center research finds that a 1-percentage-point increase in total units from 2010 to 2020 was associated with a 10-point decrease in cumulative Home Price Appreciation from 2012 to 2019 in high-employment metropolitan areas.⁴⁹ A literature review on the effects of new market-rate housing on rents found that in five out of six studies, this new supply decreased rents for residents across the income spectrum (Pennington, 2021; Phillips, Manville, and Lense, 2021).

How to Implement Light-Touch Density

A “Keep it Simple and Short” (KISS) Approach to Housing

As previously discussed, the economics of housing construction favor moderately higher density and by-right LTD. These policies would allow for higher and better land use, unleashing what Strong Towns calls a “swarm” of property owners, small-scale builders, and local contractors to take on small-scale LTD conversion projects. Evidence from the case studies indicates that small-scale builders, many of whom are disproportionately minority-owned, carry out the majority of these LTD projects. To achieve this result, here are the lessons learned.

What is required?

- By-right approval of LTD housing
- Simple rules regarding the number of units, floor-area ratio, and height restrictions permitted in a given lot.

⁴⁹ The results were cross-validated using a regression approach, different construction data sources, and various cut-points of employment growth and time periods. Across these different variations, similar results with slightly different magnitudes emerged.

What helps?

- Relaxing parking requirements (Harrison, 2023)
- Instituting shot clocks, which can accelerate the timelines in [slow-moving areas](#) and create more dependable schedules for builders and homeowners attempting to plan for future construction
- Preapproved design standards

What hurts?

- Low maximum floor-area ratio requirements
- High minimum lot size requirements
- Outsized parking or other requirements that increase construction costs or de facto prevent building LTD entirely.
- Income limits and affordable housing fees and mandates
- Rental bans
- Owner-occupancy requirements
- Rent controls.
- Inclusionary zoning
- Impact fees
- Anything not required for single-family homes.

LTD successfully unleashed a swarm of developers in Seattle’s LRM zone, in Palisades Park, and in Houston because of the simplicity of the rules, which removed discretionary approval and allowed builders to move forward with projects quickly.

Pro-housing legislators continue trying to ease Senate Bill (S.B.) 9 permitting statewide after the successful passage of S.B. 9 in California, allowing up to four units in areas previously zoned only for single-family homes. A recently introduced S.B. 9 cleanup bill called S.B. 450 would standardize local measures, holding S.B. 9 units to the same codes and design standards as SFD units, simplifying the standards and streamlining S.B. 9 conversations.

California also experienced success with accessory dwelling unit (ADU) legislation in 2016 (S.B. 1069 and Assembly Bill [A.B.] 2299), which made ADU construction by-right, added a 120-day shot clock for cities to approve or deny the project,⁵⁰ and eliminated parking requirements near transit while creating a one-per-unit parking maximum elsewhere. Localities have streamlined their permitting processes since California removed restrictions in 2016 regarding building ADUs. For example, as of March 2023, Los Angeles had [66 preapproved ADU designs](#) compatible with [neighborhood character](#), minimizing risks to homeowners and builders because they knew that this design was approved.⁵¹

As a result, ADU permits increased statewide from 2,000 in 2016 to 19,000 in 2021. In 2021, one in four housing units added in Los Angeles was an ADU, indicating that LTD policies have the potential to affect filtering and affordability greatly.⁵² Increasing density through these channels gives renters more options, particularly in resource-rich areas. UC Berkeley research on ADU construction showed that ADU rents in California were naturally affordable to two-person households (Chapple, Ganetsos, and Lopez,

⁵⁰ Both [Texas](#) and [North Carolina](#) passed shot clock bills in 2019 that mandated the review of new housing within 30 days or 15 business days, respectively.

⁵¹ [South Bend](#) has a variety of preapproved designs for LTD projects ready for construction.

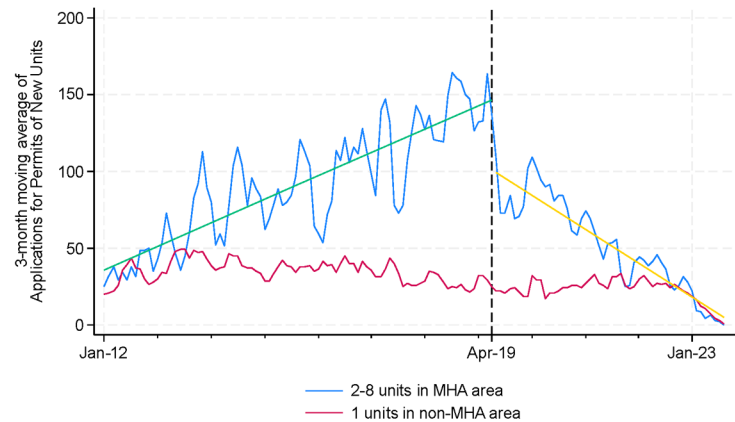
⁵² The [Los Angeles City Government](#) created a helpful map on ADU development across the area.

2021). A more holistic pro-housing framework, such as the model LTD bill, would scale this ADU model for duplexes, townhomes, and condominiums across the United States.

On the other hand, although Seattle experienced immense success building thousands of needed townhomes, implementing the Mandatory Housing Affordability (MHA) program in April 2019 attached either income limits or a hefty fine to small-scale townhome projects.⁵³ The predictable result is that builders have often completely forgone applying for new townhome projects. Whereas permits averaged about 125 units per month in the 2 years before the MHA took effect, they averaged approximately 50 between 2020 and 2022 (Figure 8). This reduction in permitting means that thousands fewer townhomes have and will be built. The restrictions, which are not tied to SFD units, hurt LTD development, and block meaningful pathways to homeownership.

These circuitous affordable housing requirements tilt the scale squarely in favor of professionalized, deep-pocketed firms with attorneys who can make sense of rules that even Seattle officials admit are “large in scope and complex.”⁵⁴ The result is that small-scale, local, and often demographically diverse developers, contractors, and architects who primarily build LTD units often are left out.

Figure 8. Permit Applications for Seattle Townhome and Single-Family Projects, 2012–23



Sources: City of Seattle and AEI Housing Center

⁵³ The MHA program attached onerous restrictions for building townhouses and other multifamily housing units—but not single-family detached units—with the goal of creating 6,000 new subsidized housing units through 2025. Builders were given a choice between designating a certain number of units as income-restricted or opting out by paying a hefty fee, yet the sale price of income-restricted units as outlined by MHA largely only covers the cost of the land without any structure cost. Paying the fee is not much better. A recent survey by the [Master Builders Association of King and Snohomish Counties](#) finds that the upfront fee can be as high as \$130,000 for an average four-unit townhome project. Often, neither option is financially feasible.

⁵⁴ https://seattle.gov/Documents/Departments/HALA/Policy/Directors_Report_MHA_Citywide.pdf

The Colorado LTD bill, [S.B. 23-213⁵⁵](#)—which ultimately failed—emphasized “developing a menu of affordability strategies,” or implementing income-based subsidies and income restrictions that have already worsened affordability woes. California’s A.B. 68, which expands by-right zoning in walkable-oriented development areas, also has affordability requirements. Adding such requirements creates complexity and renders many projects infeasible because builders cannot profit. As demonstrated in Seattle, these costly requirements can be the death knell for small-scale development projects.

No study examining the impact of Inclusionary Zoning (IZ) has concluded that it expands housing supply or “contributes to broadly lower prices (Hamilton, 2021).” One study focusing on the impact of various policies on housing affordability asks, “Can relaxed IZ substitute for land-use regulations?” and concludes that, on the whole, no (Kulka, Sood, and Chiumenti, 2022). Work by the Manhattan Institute finds that IZ drives up market rents, reduces housing construction, and negatively affects the overall health of the housing market (Harris, 2021). The California Legislative Analyst’s Office (LAO) found that displacement was lowest in communities that built more housing, and that the relationship was not dependent on inclusionary zoning regimes (Taylor, 2016).

In other cases, such as in Oahu, Hawaii, regulations legally allow duplexes but make them practically impossible to build, hindering LTD development. Although both a duplex and a detached two-family dwelling are allowed in R-3.5, R-5, and R-7.5 zones in Oahu, any parcel with a two-family dwelling requires significantly more land than a detached single-family dwelling, making these types of structures practically not buildable in these residential zones (See Table 2).⁵⁶ As a result, few-to-no LTD-style units are built, perpetuating the reliance on SFD units that are not naturally affordable to many Oahu residents.

Table 2: Oahu’s Residential Districts Development Standards

Development Standard		District				
		R-3.5	R-5	R-7.5	R-10	R-20
Minimum lot area (square feet)	One-family dwelling, detached, and other uses	3,500	5,000	7,500	10,000	20,000
	Two-family dwelling, detached	7,000	7,500	14,000	Use not permitted	Use not permitted
	Duplex	3,500	3,750	7,000	Use not permitted	Use not permitted
Minimum lot width and depth (feet)		30 per duplex unit, 50 for other uses		35 per duplex unit, 65 for other uses	65 for dwellings, 100 for other uses	100
Yards (feet):	Front	10 for dwellings, 30 for other uses				
	Side and rear	5 for dwellings ¹ , 15 for other uses			5 for dwellings, 15 for other uses	
Maximum building area		50 percent of the zoning lot				
Maximum height (feet) ²		25-30				
Height setbacks		per Sec. 21-3.70-1(c)				

¹ For duplex lots, 5 feet for any portion of any structure not located on the common property line; the required side yard is zero feet for that portion of the lot containing the common wall.

² Heights above the minima of the given range may require height setbacks or may be subject to other requirements. See the appropriate section for the zoning district for additional development standards concerning height.

(Added by Ord. 99-12)

Sources: Oahu City Government; AEI Housing Center

⁵⁵ <https://leg.colorado.gov/bills/sb23-213>

⁵⁶ For example, in R-7.5, the median lot square footage is approximately 7,500 square feet, yet a duplex (two units) or a two-family dwelling effectively requires 14,000 square feet.

LTD is the common denominator in zoning reform and has received widespread support. However, the devil is in the details. Following the “Keep It Simple and Short” (KISS) rule can unleash the potential of LTD.

Housing bills with more strings attached often fail in state legislatures. Gubernatorial-supported bills in New York and Colorado failed to garner support for proposed sweeping housing reforms that included elements of LTD because the wide-reaching nature of the bills ostracized potential supporters and galvanized detractors. In 2019, pro-housing California legislators proposed a transit-oriented development (TOD) measure called [S.B. 50⁵⁷](#), which permitted high-density buildings near transit; it ultimately failed in the State Senate. California Yes In My Backyard (YIMBY) [chief executive Brian Hanlon](#) said, “S.B. 50 was a big bill that had something for everyone but also something for everyone to hate.”⁵⁸

By contrast, in 2021, California passed two LTD bills: S.B. 9 and S.B. 10.⁵⁹ As the [New York Times](#) summarized, “in housing legislation, smaller is better.” These LTD units are built more gradually while being compatible with residential neighborhoods relative to TOD and have the potential to make a meaningful dent in the housing affordability crisis. California shows that LTD, not TOD, represents the winning formula.⁶⁰

⁵⁷ <https://cayimby.org/sb-50/>

⁵⁸ See *The New York Times* article, “After Years of Failure, California Lawmakers Pave the Way for More Housing.” <https://www.nytimes.com/2021/08/26/business/california-duplex-senate-bill-9.html>

⁵⁹ [S.B. 9](#) allows for up to [two to four units of housing](#) in most areas previously zoned exclusively for single-family homes. Homeowners can add a second unit on their lot, split their lot and sell that land to another family, or build two units per lot by-right. Under [S.B. 10](#), cities can choose to authorize construction of up to 10 units on a single parcel without requiring an environmental review, at a height specified in the ordinance, if the parcel is in a transit-rich area or urban infill site.

⁶⁰ As of March 2023, California has an S.B. 9 cleanup bill, [S.B. 450](#), on its docket, which would ensure that S.B. 9 standards are the same as for new SFD developments and that applications be approved or denied within 60 days. These changes would restrict bad-faith local government actions taken to constrain S.B. 9 developments. S.B. 450 built upon previous ADU cleanup bills passed by the California legislature in 2016 that similarly incorporated LTD concepts.

Appendix 2:

Seventy years after the Housing Act of 1949, we are considering spending \$40 billion or more to try to get public housing right. But consider these observations made in 1954 by housing leaders of the National Association of Home Builders:

There are outstanding examples ... of federal programs that have hampered home building. The most glaring is public housing, subsidized at the expense of the taxpayer, yet normally failing to meet the needs or services of the community as well as they could be met through private industry.... Public housing is not low-cost housing. It is high-cost housing offered at low rent. And the low rent is possible only because of government subsidies charged to all taxpayers.... The initial construction cost of public housing projects, however, is not the worst cost.... [There] is an operational subsidy of nearly \$19,000 per apartment, which cost \$11,000 to build.⁶¹

Fifty years have passed since the passage of the Housing and Community Development Act of 1968, the last time Congress provided subsidies to build or rehabilitate millions of homes. Today there are proposals to spend “five times in inflation-adjusted dollars than Congress authorized in the seminal Housing and Urban Development Act of 1968 to develop new affordable housing following widespread riots in the wake of Martin Luther King’s assassination.”⁶² This 1973 book’s title sums up devastation that followed the 1968 Act: *Cities Destroyed for Cash: The FHA Scandal at HUD*.⁶³

⁶¹ *Housing ... U.S.A. : as industry leaders see it*, 1954, <https://catalog.princeton.edu/catalog/SCSB-3002043>

⁶² *How Biden hopes to fix the thorniest problem in housing*, Politico, April 10, 2021, <https://www.politico.com/news/2021/04/10/biden-housing-plan-480676#>

⁶³ For example, the 1968 Act contributed to unprecedented levels of FHA foreclosures as documented in Boyer’s *Cities Destroyed for Cash: The FHA Scandal at HUD* (1973).

Appendix 3:

Vilifying institutional landlords and other entities distracts from the underlying issues facing the housing market.

Take institutional investors for example: These landlords are a symptom of the housing boom and bust cycle created by the government, rather than the cause for today's unaffordability.

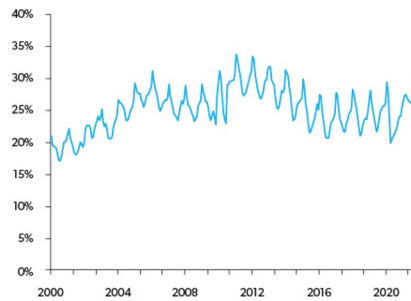
Institutional landlords, particularly on the multifamily side, are taking advantage of more liberal credit terms provided by Fannie Mae and Freddie Mac (the GSEs) than the private sector, which is a violation of their Charters, which stipulate that they shall adhere to the same lending standards as imposed by the private sector with the objective of purchasing loans "at such prices and on such terms as will reasonably prevent excessive use of the corporation's facilities."⁶⁴ They use their taxpayer guarantee and other advantages to greatly expand their business, while crowding out multifamily private investors. Since 2014 outstanding multifamily mortgage debt has doubled, with the GSEs accounting for most of the growth. At the same time they tout that they are supporting affordable rental housing, but in reality they create government profit seeking.

On the single-family side, they account for too small a share of purchases and of the housing stock nationally (according to [Freddie Mac](#), they account for around 2.5% of the purchase market, with the largest share being so-called mom-and-pop investors). Even in the few metros where their share is higher, it is not enough to move the price needle, especially at the low end of the market.

HousingWire's [Logan Mohtashami](#) citing numbers from John Burns Real Estate states that "The viral story saying Wall Street has bought 44% of the single-family homes this year is laughable. The 1000-plus block buyers accounted for just 0.4% of market share in [2023:]Q2".

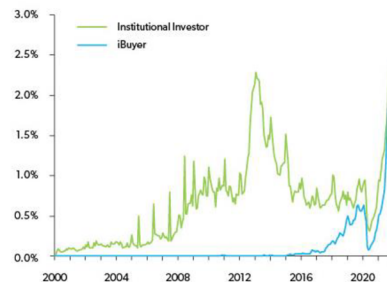
⁶⁴ For example, Fannie Mae charter stipulates that "... the operations of the corporation under this section shall be confined so far as practicable, to mortgages which are deemed by the corporation to be of such quality, type, and class as to meet, generally, the purchase standards imposed by private institutional mortgage investors. In the interest of assuring sound operation, the prices to be paid by the corporation for mortgages purchased in its secondary market operations under this section, should be established, from time to time, within the range of market prices for the particular class of mortgages involved, as determined by the corporation. The volume of the corporation's purchases and sales, and the establishment of the purchase prices, sale prices, and charges or fees, in its secondary market operations under this section, should be determined by the corporation from time to time, and such determinations should be consistent with the objectives that such purchases and sales should be effected only at such prices and on such terms as will reasonably prevent excessive use of the corporation's facilities,..." (Fannie Mae's Charter (12 U.S.C. 1719)).

Overall investor share of purchase market



Source: Freddie Mac Economics & Housing Research estimates based on public records data. Small investor = 1-9 properties, Mid-sized = 10-99 properties, and Institutional = 100+ properties purchased in the past 12 months. We identify second homes via mortgage riders in Black Knight data, so we miss all-cash second home purchases.

Large corporate buyer share of purchase market



Source: Freddie Mac Economics & Housing Research estimates based on public records data. Small investor = 1-9 properties, Mid-sized = 10-99 properties, and Institutional = 100+ properties purchased in the past 12 months. We identify second homes via mortgage riders in Black Knight data, so we miss all-cash second home purchases.

Or take short-term rentals (STR) such as AirBnB:

While there is some evidence that suggests that STRs contribute to slightly higher rents, the example of Hawaii, where home prices and rents have been far above the national average since at least the 1980s, disproves that they are the main contributor. In Hawaii, high prices and rents far predate the rise of STRs, which gained a hold in the early 2010s. Data from [insideairbnb](#) show that infrequently booked STRs earn about \$5,500 per year. At a rate of about \$300-500 per night, that means that these listings are used about 10-20 days of the year. If most STRs are infrequently booked, then it would also suggest that someone else is living in these homes for the rest of the year and it therefore seems unlikely that banning STRs would meaningfully increase the supply of housing.

The housing market is becoming less affordable, not because of institutional landlords, STRs, or other private entities, but due to misguided federal policies.

**

Op-ed on 12/10/23 in [The Hill](#).

New York City officials blame everyone but themselves for housing unaffordability

By implementing onerous requirements on Airbnb hosts, New York City is attempting to scapegoat short-term rental (STR) sites for the city's own failings. Rather than accounting for city policies that continue to drive its housing and hotel room shortage, officials have decided to target the city's 40,000 active listings, operated by—mostly smalltime—Airbnb hosts. In the end, the city will get neither the housing affordability nor housing supply it purports to be seeking, but it has handed yet another political win to the hotel workers' unions.

While the city has followed the examples of [Dallas](#), [Philadelphia](#), [New Orleans](#), [Los Angeles](#), and [Boston](#), the backstory to the passage of NYC's STR law, which requires STR hosts to register with the city and to be present during the guest's stay, is particularly egregious.

Consider that in 2010, the city, at the behest of the hotel workers' union, began its assault on hotels. The goal was to limit the construction of new, generally nonunion, hotels, to increase hotel room prices, which would particularly bolster higher-end union hotels. The [city first banned](#) and closed 55 youth hostels, before later imposing stringent requirements on building new hotels. Even the city predicted a hotel room shortage, and indeed not a single hotel permit has been issued since.

While the union certainly got its way with the city, it did not foresee the ingenuity of the free market. Once hotel rooms became scarce, STRs, with no union workers, started to fill the void. The hotel union needed to avoid the fate of NYC cabs, which had been dealt a near-fatal blow by the emergence of ride-sharing apps such as Uber and Lyft. Remember when in 2013 [NYC taxi medallions](#) were worth as much as \$1 million? Today, they sell for about a tenth.

It should come as no surprise that the hotel unions, true to form, would be the driving force behind the STR crackdown. After all, the [roughly 40,000](#) STR residential listings may only represent 1% of NYC's total housing stock – too small to have a significant impact on housing affordability (as [studies](#) have [shown](#)) – but they present a significant threat to the city's roughly 120,000 hotel rooms.

In its quest to rein in STRs, the union's effort was assisted by citizens concerned about loud noises and other disturbances from STRs, which supposedly justified sweeping action. If true, these legitimate concerns could and should be dealt with through nuisance laws, rather than outright bans. After all, homes are private, not communal, property.

However, elected officials were once again happy to do the bidding of the union and NIMBYs by falsely adopting housing affordability as the rallying cry. Of course, the inconvenient truth is that housing in high-cost places such as NYC was unaffordable long before STRs emerged about 15 years ago. Furthermore, [housing cost](#) rose 25-30% in the New York metropolitan area since the onset of the pandemic, while STR listings fell by [about half](#).

The ban will also not free up many units. Most STR hosts share their homes [infrequently](#), rather than full-time. On average, NYC's STR listings were rented out for 19 days and provided about \$2,200 of income per year. It used to be that cash-strapped residents could turn to STRs for a modicum of supplemental income. No more. Preliminary [data](#) indicate that after the ban, STR listings have dropped by almost 80% in New York City, boosting the profits of the city's hotels, which already charge among the [highest rates](#) in the [country](#).

While NYC's sledgehammer approach may play well with local unions and NIMBYs, in reality, the root cause for housing unaffordability is government regulatory failure. Home prices and rents are high because state and local laws have prevented more supply from being built while federal lending and monetary policies have juiced demand for this inadequate supply.

Ironically, it was NYC that pioneered the nation's [first zoning law](#). Today, its zoning regime has morphed into a bureaucratic monstrosity: the names of the various [zoning districts](#) alone run 16 pages long, the [residential district regulations](#) 283 pages, and the [entire document](#) 3448 pages. It is easy to see why building new housing has become so complex, costly, and rare. But rather than repeal laws that shackle

the market, NYC's bureaucrats now want [to bribe](#) 55 homeowners with \$400,000 each to build tiny houses in their backyard – as if that would make any difference.

The example of NYC's STR ban shows that the laws of supply, demand, and unintended consequences cannot be ignored. Yet, city officials in many places will embrace every opportunity to divert attention from their own policy failures by doubling down on yet more market distortions. Instead, the path to affordability and prosperity for all starts by cutting red tape and unleashing the free market system.

Mr. Peter is an American Enterprise Institute senior fellow and co-director of the AEI Housing Center.

Appendix 4:

Op-ed on 1/4/2024 in [The Hill](#).

To fix their housing shortage in 2024, cities and states should turn to market rather than heavy-handed regulatory solutions

States and cities considering housing supply reforms in the new year to combat worsening affordability should unleash the free market rather than rely on the Department for Housing and Urban Development (HUD) regulatory solutions. HUD's recommendations tilt towards heavy-handed government interventions that lack thorough analysis and proven results.

A particularly egregious example is HUD's latest [assessment](#) of Seattle's Mandatory Housing Affordability (MHA) fund, which looks past historical context and unintended consequences while presenting a one-sided picture. While HUD singles out the "success" of the MHA by highlighting the creation of hundreds of new affordable units since its inception in 2019, it leaves out the thousands of units that were not built because of MHA. In that sense, the MHA has undone decades of progress from Seattle's prior upzoning reforms that freed the market from government regulations.

To properly evaluate the MHA, one must go further back in time than the HUD assessment. The story begins in the mid-1990s when Seattle started to grapple with rising housing costs. As a political compromise that left most of the city restricted to single-family zoning, the city allowed moderately higher density around "urban villages" that comprised only about 16% of the city's residentially zoned land. The idea was simple: Increase supply within the urban villages by replacing older single-family detached residences with new generally four-unit townhomes.

The results were telling: Over the following two decades, mostly small-scale builders constructed 18,000 new townhomes – just imagine the potential had this policy been applied more broadly. While the new units were market-rate, they greatly expanded opportunities for homeownership and wealth building: From 2012-2020, 42% of townhome buyers had moderate incomes. Crucially, these new homes freed up older homes to those of more modest means through a process known as filtering.

Against this backdrop, Seattle's bureaucrats snatched defeat from the jaws of victory and decided that they could provide even more affordable housing than the market. They settled on a carrot and stick approach through the MHA. In exchange for moderately higher density, builders could either designate a certain number of units as income-restricted or opt out by paying a hefty fee. The city would then use the fee to fund affordable housing elsewhere.

The results, however, have been underwhelming. While it is true that the MHA has generated additional funds, it has not generated "a significant number of affordable housing units" as HUD claimed. Rather, the MHA has funded only a total of 1,178 affordable units over 4 years. At this pace, Seattle is on track to add about 3,000 affordable housing units over the next decade, far short of its goal of 20,000 affordable units and the at least 15,000 townhomes the market was on pace to build.

Even more telling is that, because of the MHA, Seattle is now building fewer housing units than before – although this is ignored by HUD. [Multiple studies](#) found major declines in permit activity over the four years following the implementation of MHA, which may have cost the city between 3,200 to 9,000 new units.

Fewer housing units also mean higher housing pressures for Seattle residents. Sure, there will be a few lucky ones that will live in the new affordable units, but primarily lower- and middle-income households will bear the brunt. Housing costs will rise and there will also be far fewer opportunities for homeownership and intergenerational wealth-building. By the end of 2022, MHA had only funded 30 for-sale condominiums.

But that is not all. Compared to large firms with big staff, small firms that primarily build townhomes cannot navigate the rules that the [city admits](#) are “large in scope and complex.” But the alternative of paying the MHA fee is not much better. A [survey](#) by the Master Builders Association of King and Snohomish Counties finds that for an average four-unit townhome project the up-front fee can be as high as \$130,000. No wonder that small-scale, local, and often demographically diverse builders are closing.

The case of Seattle offers two lessons: Implementing an affordability mandate was an utter failure, while allowing moderately higher density without strings attached was a clear success that should be expanded to more areas of the city. Seattle also offers a warning to those pondering the appropriate role of the federal government in state and local housing reform: It confirms that HUD’s distrust of market forces clouds its assessment of regulatory best practices. These efforts are better left to the competition of ideas and the laboratories of democracy.

As more states and cities contemplate housing regulatory reforms in 2024, let’s hope they follow the evidence, rather than HUD’s flawed recommendations.

Mr. Peter is an American Enterprise Institute senior fellow and co-director of the AEI Housing Center.

Appendix 5:

Federal housing policies have created more demand against a limited supply, which has pushed up home prices.

- Foreclosure-prone affordable housing policies began in 1954, when Congress authorized FHA to use the 30-year loan and have been primarily targeted at low-income and minority borrowers.
 - These policies have subsidized debt by providing excessive leverage.
 - Coupled with the supply shortage, the increased demand from additional leverage has fueled unsustainable lending and higher home prices.
 - This is the paradox of accessible lending: When supply is constrained, credit easing will make entry-level homes less affordable.
 - During the Financial Crisis, these policies contributed to 12 million foreclosures and other forced dispositions, which were proportionally higher in low-income and minority neighborhoods.
 - The foreclosure rate of 27% in low-income census tracts (defined as <80% of area median income) was 1.5 times as high as the 18% foreclosure rate in high-income census tracts (defined as ≥120% of area median income).
 - The foreclosure rate of 30% in census tracts with a Black and/or Hispanic share of households of at least 50% was twice as high as the 16% foreclosure rate in census tracts with a Black and/or Hispanic share of households of less than 10%.
 - These policies have not built generational wealth and despite the government's efforts over the last 60 years, homeownership today stands at about the same level as in 1964.
 - Furthermore, Housing finance policy is on autopilot, creating harmful market distortions while failing to deliver meaningful results.
 - The GSEs continue to dominate lending with about 50% market share, with total government involvement at about 80%. This is not allowing the private sector to gain more than a foothold, much less grow.
 - GSE subsidies are not well targeted to helping low- and moderate-income, first-time buyers. The lion's share of the benefit is going to existing middle- and increasingly upper income homeowners, as evidenced by conforming loan limits of almost \$1 million used by the GSEs.

Due to the legacies of the federal government's promotion of racially biased zoning and its support for risky high-leverage mortgage loans, low-income homebuyers have been subjected to the inflationary effects of dangerous leverage and extremely low interest rates.

We have examined one of these leverage policies, FHA's mortgage insurance premium cut from 2015 in greater detail. At the time, the FHA [claimed](#) that the premium drop would result in 250,000 new first-time buyers over the next three years, and save each FHA buyer \$900 annually. In [research](#) by the AEI Housing Center, we along with our colleagues found that home prices went up by about 2.5% for FHA borrowers. These borrowers had to use part their newfound "wealth" — obtained by paying lower FHA insurance premiums — to pay for the higher house price.⁶⁵

⁶⁵ Davis, Oliner, Peter, and Pinto, *The impact of federal housing policy on housing demand and homeownership: Evidence from a quasi-experiment*, <http://www.aei.org/wp-content/uploads/2018/01/Oliner-homeownership-WP-Update.pdf?x91208>

Prices also went up for non-FHA buyers in neighborhoods with FHA insured sales. After all, it is one housing market, where borrowers, no matter the financing, compete for houses. This caused the non-FHA buyers, who did not receive the benefit of lower premiums, to largely offset the price increase by buying a home of lesser quality (perhaps a smaller home, a smaller lot, or in a different location) – they were the clear losers.

We estimate that about 500,000 of these non-FHA borrowers were first-time homebuyers. Each of these non-FHA homebuyers paid approximately \$6,200 extra per house, a total extra payment of about \$3.1 billion. From a cost-benefit perspective, this averages to an incredible \$180,000 for each of the roughly 17,000 new FHA first-time buyers!

The big winners were the realtors who received hundreds of millions of dollars in higher commissions from higher prices. Little wonder the National Association of Realtors [lobbied heavily](#) for the cut in 2015. The increase in commissions from the 2015 cut averaged about \$325 per sale. If you multiply that by over 1.22 million home sales in tracts with high FHA concentration in 2015, you get a windfall of almost \$400 million per year—not a bad return on the tiny fraction spent on lobbying.

Economic principles, ironically first described by Ernest Fisher, the FHA's first chief economist in the 1930s, gave us reasons to be doubtful of the FHA's predictions: liberalizing credit when the inventory of homes for sale is tight fails to bring in a lot of new buyers, and increased buying power in a sellers' market drives prices higher as buyers compete over a limited supply of houses. In 2015, the FHA ignored the fact that the nation was already two and one-half years into a seller's market — defined by the National Association of Realtors (NAR) as a market with less than a six month supply of homes for sale at the current selling pace.

We also found that even though FHA's loan volume increased substantially in the first year after the 2015 premium cut, only about 17,000 were new first-time buyers, far short of FHA's prediction. The rest were borrowers poached from other federal agencies or buyers who purchased homes unrelated to the premium drop.

Despite the damning evidence, the FHA undertook another MIP cut in 2023 during an even more constrained housing market.

Furthermore, the administration has implemented or is considering a plethora of far-reaching changes to the housing finance system that will reshape housing finance and that will have many unintended consequences. Examples include:

March 2023: FHFA announces mortgage pricing changes, which have generally decreased fees for borrowers with lower credit scores and increased fees for those with higher scores.

Missed in the debate about loan-level pricing adjustment (LLPAs) changes is that the Federal Housing Finance Agency already distorts the riskiness of loans it originates, and ultimately taxpayers are on the hook for those loans. Every year the FHFA shuffles up to \$6 billion from higher- to lower-quality borrowers. The recent changes are another progression in a series of steps under Director Sandra Thompson that have hollowed out the risk-based pricing structure erected after the 2008 financial crisis.

March 2023: FHFA announces deferral available to all borrowers with "eligible hardships."

“Eligible hardships” was conveniently not defined. Neither does it state how many times a borrower could take advantage of this option. While some argue that this policy worked well during the pandemic and prevented many foreclosures, it isn’t that simple. Borrowers who received forbearance also could have benefited from expanded unemployment coverage, the Paycheck Protection Program, student-loan payment waivers, other Covid benefits and the quick recovery from the economic contraction.

May & December 2023: FHA solicits comments on Payment Supplement Partial Claim.

Under the current proposal, our concerns are that a borrower becomes eligible simply by falling behind on their payments, with no requirement to demonstrate hardship. There is no friction in the process as the mortgagee is obligated to initiate the process started, without the borrower even requesting it. A borrower can re-up the Payment Supplement Partial Claim multiple times as long as sufficient Partial Claim funds are available. A borrower may claim the Partial Claim for up to 60 months (later revised to 36 months). After 36 months he or she is then eligible for another Partial Claim. While borrowers are no longer able to enter into serial Payment Supplement, they can still claim it for 3 out of 5 years and start over until funds run out.

Simply by not paying the mortgagee, a borrower can set him or herself up for up to 36 months of significantly reduced payments without having to put in any effort in receiving the assistance because he or she gets automatically notified from their mortgagee. No income documentation is required to determine the borrower’s Payment Supplement Partial Claim. A borrower receiving the benefit of a Partial Claim is provided an interest-free loan of 25% of their P&I for each month for the next 3 years. This policy is fraught with moral hazard both by mortgagors and mortgagees.

July 2021: House bill introduced to eliminating the use of credit scores in mortgage underwriting or create a government credit repository.

Some already have labeled credit scores racist. While these scores are predictive of defaults, they also represent an enormous hurdle to expanding credit to underserved communities, whose members typically have lower scores and thus require risk premiums. Doing away with credit scores would have unintended consequences, particularly for lower-income Americans, by raising the cost of credit for them.

June 2023: Recommendations of the PAVE working group on how to address racial bias in home valuations.

While, we agree that the appraisal industry needs to change, [PAVE’s recommendations came up short](#) because they do not 1) identify and address the root causes of the industry’s problems, 2) identify and address in a timely and comprehensive manner appraiser racial and ethnic bias and inaccuracies, and 3) avoid overreach and damaging unintended consequences.

May 2023: House and Senate bills introduced to lower underwriting standards for first respondents or teachers (HELPER Act).

While it is estimated that anywhere between 400,000 to 1 million Americans may qualify for the benefit, the more pressing question is where the required homes would come from. Studies have estimated that the country has a shortage of around 3.8 million to 20 million homes.

June 2023: The Downpayment Toward Equity Act of 2023 is introduced in the House.

Bill would provide up to \$25,000 cash grant for first-generation home buyers, which would get capitalized into higher home prices during the current seller's market.

2022 and 2023: Fannie Mae and Freddie Mac introduce and expand Special Purpose Credit Programs (SPCP).

The programs lower underwriting standards in minority census tracts, thus expanding leverage in a seller's market, which is most severe at lower price points. These efforts could result in greater home price appreciation and crowding out of lower-income people.

February 2023: FHA reduces its mortgage insurance premium.

FHA's 30 bps mortgage insurance premium (MIP) cut will expose taxpayers and not help prospective homebuyers. Rather than cutting the premium on 30-year loans, there are good reasons why FHA should have held on to its reserves. Given the current economic uncertainty, which could mean layoffs and delinquent FHA borrowers depleting their financial reserves. Given this uncertainty, FHA should keep its powder dry. For one, home prices are still at inflated levels due to the Fed's loose monetary stimulus. Moreover, while the market has strongly corrected in markets such as San Francisco or Seattle, home prices can still decline further, which would spell trouble for FHA borrowers.

September 2021: Fannie started to include rental payment history in its risk assessment processes, which increases demand for housing without addressing supply.

August 2021: FHFA proposes and subsequently passes new benchmark level for minority & low-income tracts home purchase in 2022-24.

FHFA proposed to raise the Low-Income Home Purchase Goals affordable housing goals for low-income 2022-2024 to 28%, up from the current 24% level. The risk of this approach becomes obvious when compared to the period before the last financial crisis when the affordable housing goals were last raised.

From 1996 to 2008, the Special Affordable Housing Goals for purchase loans were raised from 12% to 27%. At the same time, the GSE purchase stressed default rate increased from 11.7% to 21.5% in 2007, before lending standards were significantly tightened. The tight correlation between both lines becomes evident in the chart below.

Due to the ever-increasing Affordable Housing Goals, the GSEs were forced to lower their underwriting criteria in order to fulfill those goals. The result, of course, was a massive build-up of risk, which eventually ended in 12 million foreclosures and other forced dispositions, which were proportionally higher in low-income and minority neighborhoods.

By historical standards today's GSE mortgage risk looks fairly benign, but FHA's mortgage risk is about at the same level as in 2006. These loans are highly geographically concentrated and the GSEs will be forced to compete with FHA when the goals are raised.

Ongoing:

- 1) According to the [AEI Student Debt Forgiveness Tracker](#), the administration has already forgiven \$317 bn student loan debt during an overheated housing market, which would increase first-time buyer buying power and increase demand, which would result in higher home prices.⁶⁶
- 2) Foreclosures: After the experience of the Great Financial Crisis and the foreclosure moratorium of the pandemic, it appears that the administration is intent on making foreclosures as burdensome as possible for servicers. While this will certainly lead to unintended consequences, once achieved, progressives would point to low rates of foreclosures as evidence that the credit box can be expanded further.

Research from at least one think tank is pushing for looser underwriting relating to the Three Cs of Mortgage Credit (Credit, Capacity, and Collateral) under the guise of “closing the homeownership gap” and “rooting systemic racism out of mortgage underwriting”. The proposed policies largely mirror similar 1999 research by the same think tank to loosen the Three Cs lending standards. That research was funded by HUD and had devastating results.⁶⁷ Others, like the Underserved Mortgage Markets Coalition would push the GSEs into riskier loan types, and looser underwriting.⁶⁸

Ultimately, a mortgage finance system without payments, the threat of foreclosure or proper underwriting standards is ultimately an entitlement program. If such a program were established, it would be here to stay—and would most likely grow.

What progressives fail to understand is that access to credit isn’t the root cause holding back Americans, particularly those of color, from owning a home. Notwithstanding numerous attempts and enormous spending by the federal government, the black homeownership rate today is barely higher than in the 1970s. Instead, the U.S. is undersupplied by millions of homes, which makes buying a home more difficult. In addition, there are far-reaching shortcomings in educational outcomes, marital status and

⁶⁶ <https://www.aei.org/studentdebtforgivenesstracker/>

⁶⁷ For 2022, see” <https://www.urban.org/urban-wire/closing-homeownership-gap-will-require-rooting-systemic-racism-out-mortgage-underwriting>. In April 1999 the Urban Institute released a report commissioned by HUD two years earlier. The report, entitled “A Study of the GSEs’ Single-Family Underwriting Guidelines”[1] advised: “Almost all the informants said their opinion of the GSEs has changed for the better since both Fannie Mae and Freddie Mac made substantive alterations to their guidelines and developed new affordable loan products with more flexible underwriting guidelines.” ... “Informants did express concerns about some of the GSEs’ practices. The GSEs’ guidelines, designed to identify creditworthy applicants, are more likely to disqualify borrowers with low incomes, limited wealth, and poor credit histories; applicants with these characteristics are disproportionately minorities.” By 2000, the GSEs had largely done away with down payments, raised debt ratios, entered the “A-minus” and “B” subprime market and re-entered the low doc/no doc market. <http://www.urban.org/publications/1000205.html>

⁶⁸ Policies advocated include a “substantially increase the number of purchased mortgage loans secured by manufactured real property,” that “Fannie and Freddie should revive their plans to begin to purchase chattel loans”, “offering exceptions for the income limits in the HNRs,” “targeted use of credit exceptions,” “instituting a 4% deferred second mortgage to cover closing costs and boosting the seller concession from 3% to 6%,” or that the “GSEs eliminate their loan-to-value limits to better align with FHA rules.” See <https://www.insidemortgagefinance.com/articles/223669-nonprofit-coalition-offers-blueprint-to-improve-fanniefreddie-dts-plans?v=preview>.

earnings that need to be addressed. These [socioeconomic factors](#) explain most of the gap in homeownership between black and white Americans.

The administration's recent actions to expand homeownership to underserved communities are both flawed and reminiscent of similar failed efforts, particularly those made in the runup to the 2008 financial crisis. Remember when in 1994 [Fannie Mae](#) committed to "transforming the nation's housing finance system to make it accessible to everyone"? To quote Yogi Berra, "It's like déjà vu all over again."

Each one of these above mentioned programs on its own seems innocuous. However, the accumulation and combination of them should raise alarms. With new leadership at federal agencies and regulators, a concerted effort to lower underwriting standards again – as happened during the 1990s and 2000s – seems to be underway.

Raising the Affordable Housing Goals requires lessening criteria on risk layering, otherwise the goals could not achieve much. At the same time, the effort to bring in higher-risk borrowers requires larger cross-subsidies, which required changes to the LLPAs. While lower-income Americans are being crowded out of the housing market, bringing them back by lowering underwriting standards through a concerted efforts by federal agencies and regulators is a recipe for disaster and risks creating more housing risk. This will put the exact people the policies are intended to help into harm's way.

Appendix 6:

While the outcomes for the housing market are outlined below, easy money also had effects on inflation.

- Just since the beginning of the pandemic, the Fed's monetary policies have contributed over \$1 trillion in wealth effects available to be used for additional spending.⁶⁹
- Researchers at the Dallas Fed have found a "high correlations between current house price growth and future inflation of rent and [owners'-equivalent rent] OER" and predict rent and OER inflation to reach 6-7% by 2023, up from around 2% today.⁷⁰

Thus, higher inflation was foreseeable and we started to warn as early as July 2020 of an impending housing boom and indicia of higher price levels ahead.⁷¹

The effects of the coronavirus pandemic were unprecedented in terms of widespread lockdowns, skyrocketing unemployment, and a financial market crash. The Federal Reserve took aggressive expansionary efforts in the form of zero interest rate policy (ZIRP) and quantitative easing (QE) to stabilize the economy, while Congress enacted massive fiscal stimulus. However, one of the results was a runaway home price boom.

It is now generally acknowledged that the Federal Reserve ended up overshooting by not recalibrating its policies in light of both overwhelming fiscal and housing market responses. Both of these fueled an explosion in aggregate demand, especially for goods and houses.

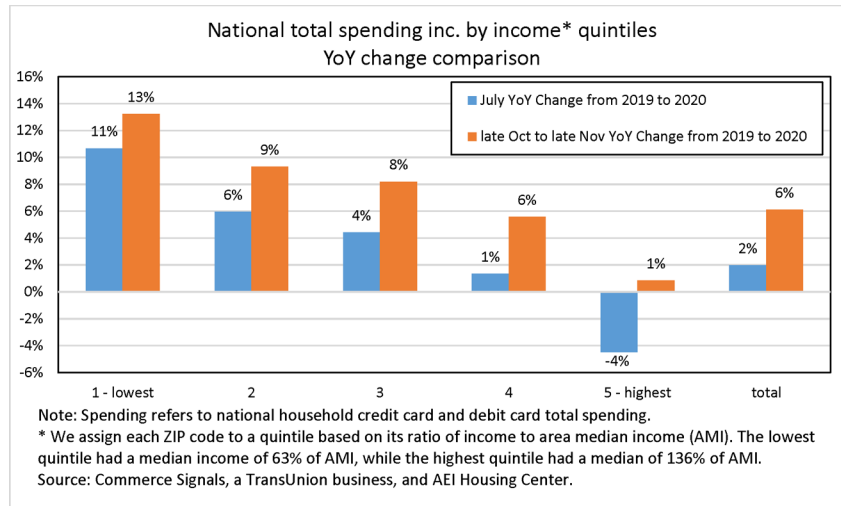
By the end of August 2020, near-real-time credit card data indicated that sales for July 2020 were up 2% on a year-over-year basis, indicating a recovery from the initial pandemic shock. By mid-December 2020, these same data indicated that sales for late October 2020 to late November 2020 were up 6% on a year-over-year basis, signaling a policy-induced acceleration of demand. Spending in the lowest two quintiles of zip codes by income was growing at 13% and 9% year-over-year, reflecting the especially large fiscal stimulus for lower-income households.⁷²

⁶⁹ About \$420 billion (\$15 trillion in stock market valuation increase since end of 2019 x 2.8 cents per year in increased consumption), about \$180 billion (home equity gains over the last 18 months yields an average \$2,200 per household in additional consumption spending over the next couple years, or about \$180 billion of additional spending summed up across all homeowners, about \$280 billion/year from monthly payment savings on Rate and term refinances, and about 90 billion/year from equity extraction on cash out refinance loans. CITE CONFERENCE

⁷⁰ <https://www.dallasfed.org/research/economics/2021/0824>

⁷¹ For the entire paper, see <https://www.aei.org/research-products/report/the-federal-reserves-housing-market-lessons-to-be-learned-once-again/>

⁷² In addition, stock and home prices were booming by late 2020. The ensuing wealth effect, which develops with a lag, should have been well known to the Fed.

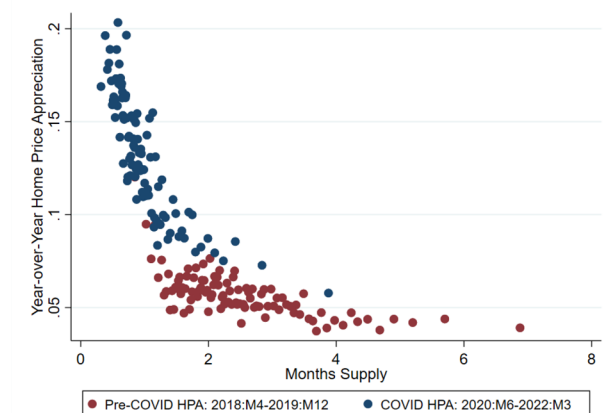


The Fed kept expansionary monetary policies in place for too long, which helped fuel both rampant consumer price inflation and home price appreciation (HPA).

Unprecedented monetary easing with existing inventory for sale already at multi-year lows was bound to have an outsized effect on HPA as available homes for sale continued to plummet, with inventory dropping from 3.2 months of sales in February 2020 to 2.0 months by February 2021.

Research presented by [Sam Khater](#) in October 2017 at the AEI Housing Conference found that at the metro level: "Price pressures rapidly increase as supply drops below 3 months." Just before the Fed started its pandemic credit easing, the national existing supply for February 2020 was already close to the 3-month inflection point. Within a year it would drop to 2 months and eventually drop to as low as 1.8 months. Credit easing during the pandemic, in concert with the already-low inventory, had the predictable effect of causing home prices to boom at a rapidly accelerating rate. Khater's research would indicate that the historical relationship between months' supply and home prices would be amplified due the severely tightened supply that occurred during the pandemic. The moderate non-linear relationship between months' supply and home price appreciation before the pandemic became an exponential hockey stick during the pandemic. Below we show this relationship using a binned-scatterplot that combines each metro-month's year-over-year HPA and months' supply before the coronavirus pandemic in red (2018:M4-2019:M12) and during the pandemic in blue (2020:M6-2022:M3). Months' supply during the pandemic reached record-low levels, as the sellers' market of the past 10 years deepened. Real-time tracking of the housing market provided better evidence for these unprecedented times rather than relying on prior models.

Figure: Year-over-Year Home Price Appreciation and Months' Supply by Metro-Month



Source: AEI Housing Center

New data sources and innovative ways of tracking home prices and risk started to appear during the earliest days of the pandemic. As the pandemic took hold in the spring of 2020, the AEI Housing Center realized that market trends were moving so fast that data latencies of 3 months or more for the stressed MDR and HPA tracking metrics were no longer adequate. This meant that normal monthly updates needed to be replaced by weekly ones. New Center reports using real-time data from Optimal Blue were quickly developed. These were first dubbed “flash housing market indicators” and later “NowCasts”. By early [April 2020](#), the AEI Housing Center was using Optimal Blue data to monitor HPA and MDR on a weekly basis and project future HPA and MDR with a high degree of accuracy, but without the usual 3 month lag. By [July 2020](#), recent purchase contracts indicated that HPA had accelerated to 10% (Y-o-Y) and that the MDR was declining. This was a boom induced by low borrowing costs reflecting ZIRP and the heavy and lasting dose of QE, combined with a widespread desire for more space.

Using these broadly distributed real-time data, the Fed might have pivoted much sooner from its unprecedented levels of QE and ZIRP that contributed greatly to runaway consumer and housing inflation. Instead, in August 2020, the Fed doubled down when it “approved a major shift in how it sets interest rates by dropping its longstanding practice of pre-emptively lifting them to head off higher inflation, a move likely to leave U.S. borrowing costs very low for a long time.”⁷³ Chair Powell stated: “We’ve really got to work to find every scrap of leverage in helping stabilize the economy.”⁷⁴ However, foreseeable consequences followed. As noted by the [Housing Center](#) a few days later: “The payment drop due to the lower mortgage rate is more than offset by the impact of the higher home price on

⁷³ <https://www.wsj.com/articles/feds-powell-headlines-virtual-jackson-hole-economic-conference-11598486400?mod=mhp>

⁷⁴ Ibid.

principal, interest, mortgage insurance premiums, property taxes and home owners insurance, and closing costs, since all of these are related to home price and mortgage amount.”⁷⁵

This new era required increased real-time tracking of the housing market. This was clear from the data sources followed by AEI’s Housing Center. Here are some examples:

July 2020: “Driven by ultra-low mortgage rates and a limited supply, national home price appreciation accelerated to around 10%. This rate exceeds the rate before the pandemic, which may indicate the home price boom will likely continue due to low rates and heavy demand.”

August 2020: “Powell’s Fed has determined that inflation is now so benign that it no longer needs to raise interest rates as a precautionary action against inflationary excesses. Yet we have been feeling such excesses in capital assets, such as stocks and homes, for some time, and markets are applauding. This is perfectly foreseeable as lower interest rates get capitalized into higher asset prices.”

September 2020: “Low mortgage rates and continuing strong demand are adding yet more fuel to the current housing boom already 9 years in the making.”

October 2020: “America is running out of inventory. Buyers can’t buy houses that aren’t for sale, so they’re bidding up the prices of the relatively few on the market. That means price increases will keep racing until more inventory comes on. And new supply will come on slowly.”

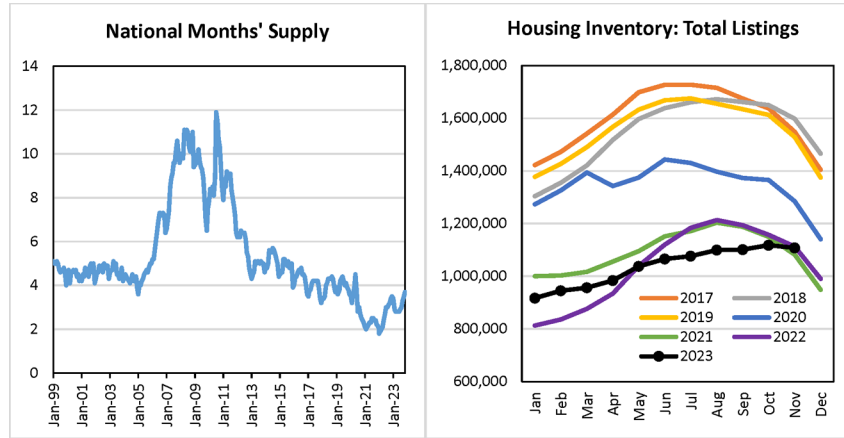
November 2020 : “Driven by ultra-low mortgage rates and a limited supply, national HPA is unsustainable and far exceeds the levels before the pandemic.”

The Federal Reserve’s actions to “spike the monetary punch bowl” through \$5 trillion in total asset purchases, including bloating its mortgage securities investments to \$2.7 trillion, and maintaining mortgage rates below 4 percent until March 2022 were in conflict with the data that from July 2020 already showed a skyrocketing housing market. Despite the evidence, the Fed did not stop MBS purchases that had buoyed its balance sheet and overheated the economy and housing market. Instead, the Fed continued to increase its assets until April 2022, despite large increases in HPA and these warning-signs of HPA and inflation to come.

Once it became clear the inflation was not transitory and in effect out of control, the Fed slammed the brakes on its expansionary monetary policies and reversed course through Quantitative Tightening (QT).

But this sharp reversal created other unintended consequences and distortions. With mortgage rates now approaching 8%, people have been unwilling to sell their homes because that would entail a higher rate mortgage. This so-called lock-in effect is one unintended consequence of the Fed’s misguided policies that first kept rates too low for too long before reversing abruptly and vehemently course. With homeowners unwilling or unable to move that has removed 100,000s of units from the market for years to come. Today supply remains at lows not even seen before the Great Financial Crisis and listings remain at around two-thirds of 2017-2019 levels.

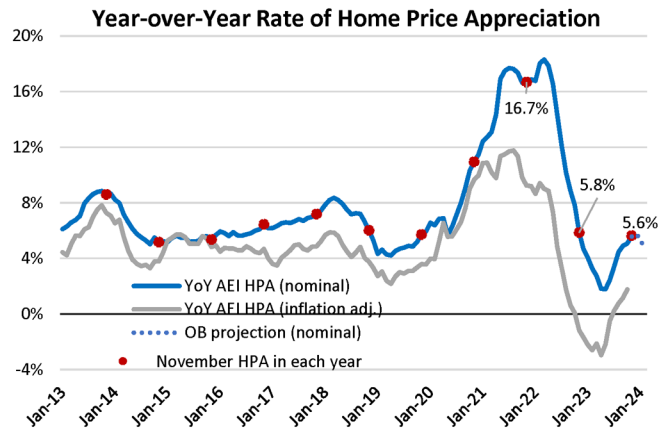
⁷⁵ <https://www.aei.org/research-products/report/the-feds-spiked-punch-bowl-ad-infinitum/>



Source: NAR

Source: Realtor.com, and AEI Housing Center, www.AEI.org/housing.

What remains is an unhealthy market, where –despite an affordability shock from higher rates– home prices continue to march higher, further hurting affordability particularly for entry-level buyers.



Note: Data are for the entire country. Data for November 2023 are preliminary.

Source: AEI Housing Center, www.AEI.org/housing.



January 31, 2024

The Honorable Sheldon Whitehouse
Chairman
Committee on the Budget
United States Senate
Washington, DC 20510

The Honorable Chuck Grassley
Ranking Member
Committee on the Budget
United States Senate
Washington, DC 20510

Letter for the Record: Senate Committee on the Budget Hearing, “A Blueprint for Prosperity: Expanding Housing Affordability”

Dear Chairman Whitehouse and Ranking Member Grassley,

On behalf of the [J. Ronald Terwilliger Center for Housing Policy](#), thank you for convening this important hearing on housing affordability, an issue of profound importance to millions of Americans. Unfortunately, households across the country are today facing historically high housing costs, including mortgage interest rates at levels not seen in decades. Over the past three years, average rents have risen by 19%, while home sale prices have increased by 22%. More than 42 million households, including half of all renters, are cost-burdened, spending more than 30% of their monthly income just on housing. The more that families are forced to spend on housing, the less they can spend on other necessities like food, childcare, health care, and transportation. This housing affordability crisis has significant impacts—leading to poorer health outcomes, impacting academic achievement among children, restricting labor mobility, and slowing our nation’s economic growth.

Launched in 2021, the Terwilliger Center is driven by the belief that all Americans deserve access to decent, safe, and affordable housing, and we seek to advance durable, bipartisan policies that will make that vision a reality. To chart a path forward, the Bipartisan Policy Center and BPC Action developed a [legislative package](#) for the 118th Congress. Drawing from past bipartisan proposals, the package seeks to improve housing affordability using a three-pronged approach:

1. Increasing housing supply
2. Preserving the existing stock of affordable homes
3. Strengthening policies that help households afford and access housing

Increasing Housing Supply

Over the past 15 years, the United States has underbuilt housing by millions of homes leading to a significant shortage of affordable homes in both the rental and homeownership markets. The imbalance between the demand for housing and available supply is at the core of today’s housing affordability challenge. At the same time, wage growth has not kept pace with the growth in housing costs.

Encouraging greater private investment in the production and rehabilitation of affordable homes is critical to overcoming the supply shortfall. Two bipartisan bills, the Affordable Housing Credit Improvement Act (S. 1557) and the Neighborhood Homes Investment Act (S. 657), would harness private



investment and significantly expand the supply of new affordable housing by an estimated 2.5 million units over the next 10 years. The Low-Income Housing Tax Credit provisions included in the bipartisan Tax Relief for American Families and Workers Act alone could create an additional 200,000 affordable rental homes over the next two years. Incentivizing local governments to reform zoning and land use laws that prevent new and denser forms of housing is also an important tool that Congress can use to encourage more housing supply. The Build More Housing Near Transit Act (S.3216), for example, would reward cities for building more housing near new transit projects.

Preserving Affordable Homes

Given the current deficit of available, affordable housing, preserving the existing stock of affordable homes is essential. Preservation helps people with lower incomes stay in their homes and communities instead of being forced to relocate when prices rise. Strengthening affordability requirements for rental homes financed through tax credits, permanently authorizing HUD's Rental Assistance Demonstration program, and supporting the preservation and affordability of manufactured housing would all contribute to sustaining the current stock of affordable homes.

Helping Households Afford and Access Housing

While increasing housing supply and preserving the existing stock of affordable homes are critical steps, "demand-side" support for households without incomes adequate to cover their housing costs is also necessary. Housing vouchers have proven successful at reducing housing instability, yet fewer than one in four households eligible for a voucher receives one. Moreover, many who receive a voucher are unable to use it due to low levels of landlord acceptance. Rising home prices across the country and high interest rates are also pushing prospective first-time homebuyers out of the market, particularly Black and Hispanic households, and limiting their ability to take advantage of this important wealth-building tool. Policies that expand the number of rental homes available to housing voucher recipients, help families relocate to higher-opportunity neighborhoods, and eliminate barriers to homeownership for lower- and moderate-income borrowers are all effective ways to assist households directly. For example, the bipartisan Family Stability and Opportunity Vouchers Act (S. 1257) would authorize a new type of housing choice voucher designed to help struggling families with young children afford housing and move to neighborhoods with greater opportunities, while the bipartisan Choice in Affordable Housing Act (S. 32) would authorize new incentives to encourage landlords to accept vouchers.

Prioritizing access to affordable housing will improve the lives of millions of Americans while enhancing upward economic mobility and strengthening our nation's economy. The housing affordability crisis can be solved, but to do so Congress must implement a comprehensive and bipartisan response. We thank the Committee for your work on this critical issue and stand ready to assist.

Sincerely,

Dennis Shea

Dennis Shea
Executive Director, J. Ronald Terwilliger Center for Housing Policy
Bipartisan Policy Center

